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## MANAGING YOUR BUSINESS

*Though stocks are down, small business looks up toward an even better year in '88, surveys show. (Cover Story, Page 16)*



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Cover Design: Hans A. Baum

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PHOTO: WAYNE BORCE

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PHOTO: T. MICHAEL REZA

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**NEW PRODUCT NEWS...**

# Small Connecticut Company's New Golf Ball Flies Too Far — Could Obsolete Many Golf Courses

*"... it would turn the course into a par-three,  
and real men don't play par-three's."*

**Pro Hits 400-Yard Tee Shots  
During Test Round**

**Want To Shoot An Eagle or Two?**

By Mike Henson

MERIDEN, CT — A small golf company in Connecticut has created a new, super ball that flies like a U-2, putts with the steady roll of a cue ball and bites the green on approach shots like a dropped cat. But don't look for it on weekend TV. Long-hitting pros could make a joke out of some of golf's finest courses with it. One pro who tested the ball drove it 400 yards, reaching the green on all but the longest par-fours. Scientific tests by an independent lab using a hitting machine prove the ball out-distances all major brands dramatically.

The ball's extraordinary distance comes partly from a revolutionary new dimple design that keeps the ball aloft longer. But there's also a secret change in the core that makes it rise faster off the clubhead. Another change reduces air drag. The result is a ball that gains altitude quickly, then sails like a glider. None of the changes is noticeable in the ball itself.

Despite this extraordinary performance the company has a problem. A spokesman put it this way: "In golf you need endorsements and TV publicity. This is what gets you in the pro shops and stores where 95% of all golf products are sold. Unless the pros use your ball on TV, you're virtu-

ally locked out of these outlets. TV advertising is too expensive to buy on your own, at least for us.

"Now, you've seen how far this ball can fly. Can you imagine a pro using it on TV and eagle-ing par-fours? It would turn the course into a par-three, and real men don't play par-three's. This new fly-power forces us to sell it without relying on pros or pro-shops. One way is to sell it direct from our plant. That way we can keep the name printed on the ball a secret that only a buyer would know. There's more to golf than tournaments, you know."

The company guarantees a golfer a prompt refund if the new ball doesn't cut five to ten strokes off his or her average score. Simply return the balls — new or used — to the address below. "No one else would dare do that," boasted the company's director.

If you would like an eagle or two, here's your best chance yet. Write your name and address and "Code Name S" (the ball's R&D name) on a piece of paper and send it along with a check (or your credit card number and expiration date) to National Golf Center (Dept. H-539), 88 Post Road West, Westport, Ct. 06880. Or phone 203-238-2712, 8-8 Eastern time. No P.O. boxes, all shipments are UPS.

One dozen "S" balls cost \$21.95 (plus \$1.95 shipping), two to five dozen are only \$19.50 each, six dozen are only \$99.00. You save \$43.00 ordering six. Shipping is free on two or more dozen. Specify white or Hi-Vision yellow.

*Mike Henson is a free-lance sports writer who covers golf extensively.*

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# Commerce And The Constitution

By Warren E. Burger

Last year marked the beginning of a five-year celebration of the 200th anniversary of the U.S. Constitution, the blueprint for a government of freedom and opportunity that, "with all its faults," as Ben Franklin said, has been remarkably successful and durable.

One of the important—but often overlooked—civil liberties secured by this document is the liberty to engage in trade and commerce without the barriers that each of the original 13 states could set up.

The Constitution gave us a "common market" beginning in 1789, a century

western lands were willing to forsake the Mississippi to avoid a confrontation that might bring a Spanish armada and threaten coastal trade.

Such commercial and regional rivalries plagued the states under the feeble Articles of Confederation and convinced many leaders that a strong central authority was needed. Maryland and Virginia invited all the states to send representatives to a general conference in Annapolis, Md., to discuss trade and commerce.

When the representatives convened in September, 1786, delegates from only five states showed up. But they adopt-

dicial branches. The Bill of Rights soon followed.

Because commercial problems had provided much of the impetus for the Philadelphia convention, it is not surprising that the Constitution addressed those difficulties in some detail.

To assure the nation a uniform monetary system, Congress was given the power to issue currency, while the states were prohibited from doing so. Congress was given the power to borrow and the power to tax—thereby providing a solid fiscal foundation for government finance.

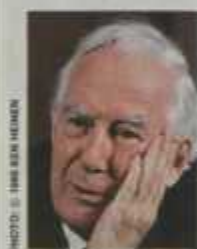
The Constitution also granted Congress exclusive powers to impose duties on foreign trade and to enter treaties—but it limited Congress to imposing only uniform duties and only on imports. This assured free interstate commerce and meant that the United States could respond with a consistent policy to international trade restrictions imposed by other countries.

But perhaps no provision written at Philadelphia was more important to the future development of the new nation than the Commerce Clause, which gave Congress the power to regulate interstate and international commerce with an eye on the interests of the nation as a whole rather than the interests of individual states or regions.

The Commerce Clause gave the new national government control over the waterways, as well as embryonic railroads and eventually telegraph lines, oil and gas pipelines, interstate highways and airlines. It has assured the free flow of all goods and services between the states. The Commerce Clause is the foundation of our private-enterprise system.

During the relatively short period of 200 years, this nation has grown from a small contingent of fewer than 4 million people, scattered along the Eastern Seaboard, to a great world power of more than 240 million people. The Constitution was the key in that development.

And the Bicentennial of the Constitution provides us an occasion to understand its history and the liberties and opportunities it guarantees, including the common market that now spans a continent. It is the key to our economic success. **WB**



*The Commerce Clause... has assured the free flow of all goods and services between the states. [It] is the foundation of our private-enterprise system.*

and a half before the advent of the European Economic Community.

In 1787, the states were independent, sovereign nations, free to maintain separate armies and navies, print their own currencies and collect taxes independently. They had joined in war against England under the Articles of Confederation, which declared the states to be simply a "firm league of friendship." The Articles provided legislative power in the Confederation Congress, but that body lacked the powers essential to true nationhood, powers retained by the individual states.

Many conflicts also arose among the states over economic issues stemming from their individual relationships with foreign powers. States whose western lands extended to the Mississippi River, for example, wanted a treaty with Spain that would permit them to use the Mississippi for shipping agricultural and other products. States with no

ed a report pointing out the grave crisis confronting the states and the futility of considering commercial problems without also addressing the underlying political issues.

The Annapolis Resolution, sent to all the states and the Confederation Congress, proposed that the states send representatives to a convention, to be held in Philadelphia in May, 1787, to consider these basic problems. All of the states except Rhode Island agreed to send delegates, but the Confederation Congress—still wary of the idea of a central government—authorized the delegates to meet "for the sole and express purpose of revising the Articles of Confederation."

Notwithstanding this limited mandate, George Washington, Alexander Hamilton and James Madison—all advocates of a strong central government—convinced the delegates that the states needed to go beyond a mere revision of the Articles. The result was the Constitution we now celebrate—a plan for a government with relatively broad but separated and "harnessed" powers shared by executive, legislative and ju-

Warren E. Burger, Chief Justice of the United States, 1969-1986, is chairman of the Commission on the Bicentennial of the U.S. Constitution.



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## COMMENTARY

# Letters

### The Battle Of The Sex

Whoa! Is Sharon Nelton setting up a fair fight in asking for reader response to my book, *Women Vs. Women, The Uncivil Business War* ["Women At War With Each Other," November]? Translating bits of what she thinks I mean isn't a fair representation of my view.

My book brings out ways that women hold one another back from achieving senior-management positions. My thesis is that women act from fear of economic failure and find it difficult to trust or respect one another.

I do not ask that women stop exercising their personal choices but that they consider the long-term results. If female MBAs are willing to work minimum hours at minimum wages, sans benefits, it may erode full-time positions.

I don't say that women should not balance home and family but that they keep homemaking concerns to a low key during work hours so that other working women are not judged as being less serious about their careers than their male counterparts.

The main thrust of *Women Vs. Women* is to point out the ways and reasons that women are hurting one another and to show the benefits of a cease-fire. True, my book is controversial, but it is getting women to think and talk about the problem.

The Congressional Caucus for Women's Issues 1987-88 reports that women are in much the same economic place now as in 1978, with the situation worsening as women age. So we all had better try finding new answers!

I hope those who respond to your column will first read my book. Then they can better judge if the cure is worse than the disease.

*Tara Roth Madden*  
Newport Beach, Calif.

There are as many different types of women in the business world as there are men. To categorize and generalize them is neither fair nor accurate.

As a business owner, wife and mother, I work diligently during my office hours, then I wrap it up and go on to

*Send letters to Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

my other roles at home. Choosing part-time work and taking time off for families are legitimate choices for any worker—male or female—who has goals in life besides climbing the corporate ladder.

*Marsha W. Sweeney*  
Swarthmore, Pa.

In my experience, women do not help other women succeed. But do men help other men? I haven't seen a lot of helping anywhere.

I believe the problem of women not succeeding as well as men in the corporate world stems from the fact that we're trying to turn women into men—the square-peg-in-the-round-hole syndrome.

For women to get ahead today, business must accept that there is more than one way to solve a problem, that there is more than the traditional male approach to business and success.

I don't have great hope that a substantial change will come in my work lifetime, but then the Minnesota Twins weren't supposed to win the World Series.

*Sandra Scott*  
Minneapolis

In every office where I have worked, the women were always "cat-fighting"—competing for better wardrobes, looks, skills or especially for better positions.

Men help each other climb the corporate ladder. This, of course, leaves women out of the game entirely.

*Andrea Calceola*  
Miami

Personal experience has proven to me that women do promote women. If a woman is qualified, she is pushed to the forefront by other women managers. And support groups for women have sprung up all over the country.

It seems to me that anyone proposing a course such as Madden's "Hatred Management" is far from projecting a positive image. Why not have courses for men and women on human relations that would emphasize individual perspectives rather than sexist groupings?

*Vicky Stewart*  
Birmingham, Ala.

Women do subvert other women, but not because they are unaccustomed to working for the greater good or because their ultimate dream is to reach the top of the corporate ladder. Women subvert other women because of jealousy.



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return to the conversation without redialing. There's even a hands-free answerback speakerphone with a "mute" button that allows you to carry on a conversation in your office without the other party hearing you. Plus, automatic call hunting that you program to automatically locate and dial up to 20 phone numbers at the touch of a button. And it does all these plus many more functions on a single phone line. But there's more....

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## Business & Government in 1988

*A Radio Address by Dr. Richard L. Lesher,  
President of the U.S. Chamber of Commerce*

*On February 4, Dr. Lesher will address the National Press Club in Washington, D.C. on the 1988 legislative agenda for business.*

*1988 could prove to be a critical year for Congressional action on issues that will direct the future of American businesses like yours.*

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*Check local listings for C-Span and public radio coverage in your area.*

### COMMENTARY

#### Letters

sy. Mary E. Cunningham, whose quick rise to a vice presidency of Bendix Corporation and subsequent fall made national headlines a few years back, wrote in a 1985 *Harper's Bazaar* article:

"Rather than evoking the typical admiration, respect and even deference that men enjoy when they attain power, women usually are met with emotions more akin to jealousy, suspicion and outright anger—and not just from men. Power is regarded as the likely reward for 'a favor' she had granted as opposed to merit she has earned."

Because women grow up equating power with being the center of attention, a woman in the workplace confronted by a woman boss or more glamorous co-worker feels she has lost power to an interloper. She often feels she is not in the desired position only because she would not compromise her moral standards, something she secretly believes the successful woman did. In spite of networking and progress in women's rights, women still believe other women use some unfair tactic—looks, sex, whatever—to acquire better positions.

Until we women learn to respect and admire the accomplishments of those we work with, and not just those non-threatening women whom we can admire from afar, we will never succeed in our own world, let alone that of men.  
*Marian Nicely  
Ligonier, Pa.*

#### Melting-Pot Meltdown?

A recent raid on a small industrial park in Anaheim, Calif., that netted three illegal-alien arrests has prompted me to ask my elected representatives to seriously rethink the appropriateness of the recent immigration-act reform ["No Aliens, Lots of Paperwork," November].

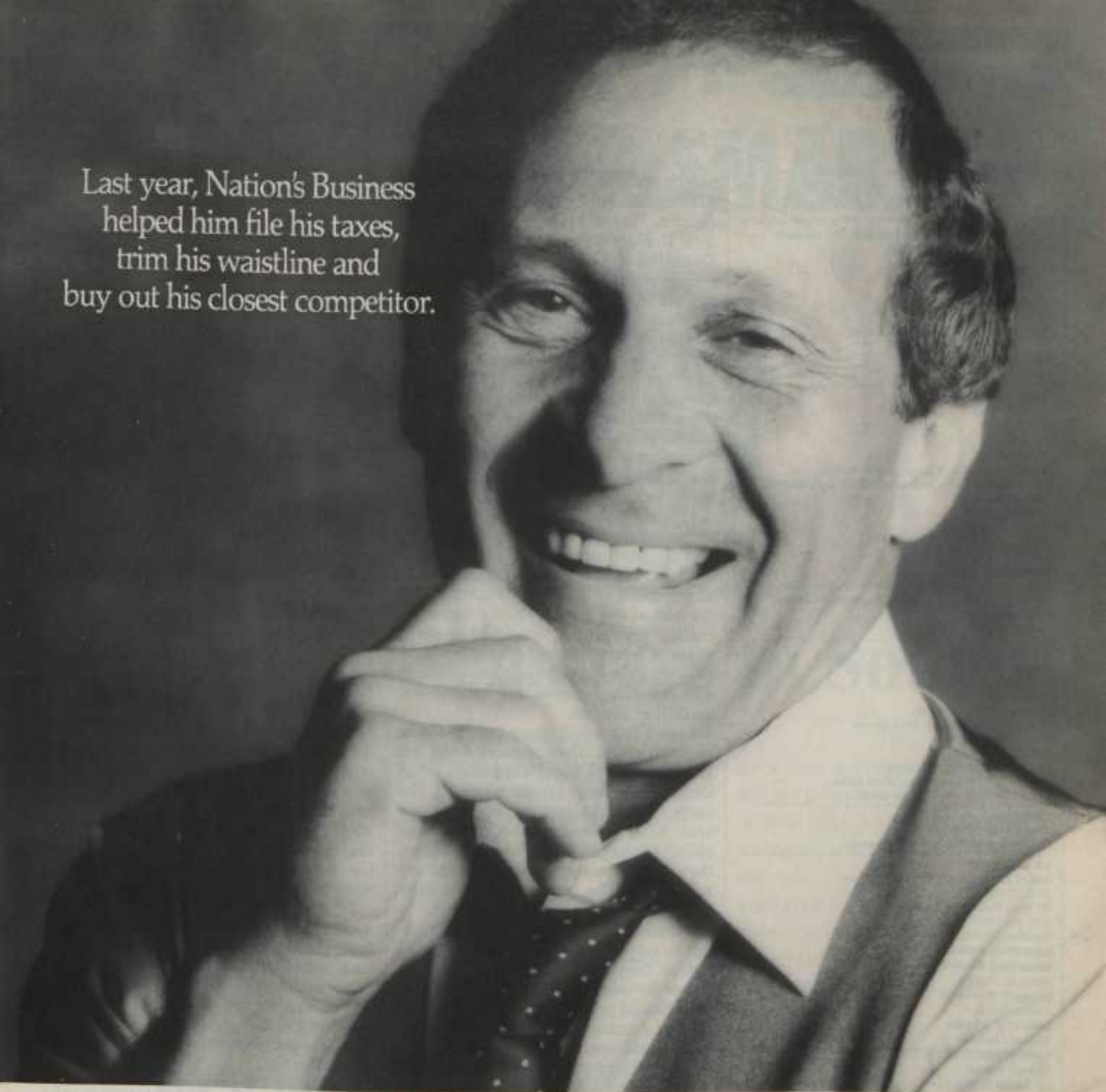
There have been recent signs that American manufacturers are once again becoming competitive with the Japanese, Koreans and Taiwanese, in part because we have an available immigrant labor force. We will lose this newly won parity if we lose these workers.

The only jobs being created by this bill are Immigration and Naturalization Service federal jobs, thereby increasing the federal deficit. Five people and three cars were used to make three arrests in Anaheim.

This law helps only the federal bureaucracy and our overseas competitors. The potential economic and geopolitical



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## COMMENTARY

### Letters

ramifications may be far more severe than envisioned by the legislature.

*Peter L.V. Hutchinson*

*Gail B. Hutchinson*

*Dana Point, Calif.*

### Protection For Franchisees

Why aren't more steps taken to prevent the selling of bad franchises? Your article ["Taking The Franchise Route," October] presented a lot of information on how an individual should choose a franchise. But I want to know what procedures federal and state authorities follow to prevent franchisors from selling business systems unmarketable in given areas.

I bought a franchise of custom interior-decorating products. The idea was to sell door-to-door from a van supplied with samples of custom products sold at a 60 percent gross-profit margin (250 percent above cost). When I began to realize my prices were 150 percent above my competitors' prices, my business was already a basket case. Within nine months I closed my books—300 percent in the red.

I tried to get help from people at the regional office. They decided I did not know how to sell and suggested I find local workrooms to cut some of the costs. They did not advertise in my area. After several months of telephone calls, correspondence and meetings, they decided to terminate my business with them. The loss was taken totally by my business, not the franchisor.

I would like to see regulations requiring businesses to prove their potential before they are allowed to sell franchises in new markets. For example, they should produce market surveys reflecting demand for goods and services, actual and realistic cost breakdowns, business plans and projections of industry viability.

That way, chances of franchisors taking profitable advantage of vulnerable franchisees in search of that better way of life would be reduced.

*Connie S. Watkins*  
*Evansville, Ind.*

### AIDS-Information Clearinghouse

We read with interest "Preparing For The Worst" [October]. Your readers should know there is a Clearinghouse on AIDS in the Workplace Issues, which provides information on organizations, training programs, policy manuals, articles and books covering this topic.

This information is directed at employers and covers only workplace is-

ssues. Any organization or individual wanting information or wanting to include information in the Clearinghouse database should write: *Personnel Journal AIDS Clearinghouse*, 245 Fischer Avenue B-2, Costa Mesa, Calif. 92626. A free bibliography of AIDS resources for employers is available.

*Betty Hartzell*

*Publisher, Personnel Journal*  
*Costa Mesa, Calif.*

### Not Time To Wait

I was stunned when I read Deepak Chopra's article "Are Your Thoughts Killing You?" [To Your Health, October].

Even after his patient died from a heart attack brought on by being upset at having to wait, Dr. Chopra never mentions the possibility that perhaps patients shouldn't be kept waiting long past their appointment times.

I wonder if he still keeps patients waiting. Obviously not all of them have the time.

*George King*  
*Phoenix*

### Faulty Arguments On Minimum Wage?

*Nation's Business* recently published a crop of articles, commentaries and letters opposing legislation being considered by Congress to raise the minimum wage. Your editors failed to examine the false economic premises on which the arguments against an increase were based.

1. *Raising the minimum wage is wrong because it violates market pricing.* The purpose of all economic systems is to ensure an adequate supply of goods and services to the community. If wages are so low that workers can't buy food, clothing, shelter and medical care, the problem should be fixed with legislation.

2. *We can't raise the minimum wage because increased labor costs will raise prices, and American goods won't be competitive worldwide.* What's wrong with adding tariffs to goods from foreign nations that unjustly exploit labor, violate human rights, or heavily pollute the environment?

3. *Boosting the minimum wage is inflationary.* If inflation is caused by too many dollars chasing too few goods, then this obviously doesn't apply to our current economic situation. Our factories are underutilized, we have a historically high unemployment rate, and the federal deficit is swollen due to a stagnant economy.

*Mark N. Soroko*  
*Westminster, Colo.*



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# Small Business Update

## More Contracting Opportunities

President Reagan has ordered federal bureaucrats to do all they can to contract out commercial activities currently performed by department and agency personnel.

This move by the President should create opportunities for firms seeking to do business with the federal government.

Under the recent presidential order, federal managers have until April 29 to list commercial functions that their employees perform. This list will be sent to the Office of Management and Budget (OMB).

By June 30, managers must identify and report to the OMB which of those functions could be performed more economically by the private sector.

The acceptable excuses for not contracting out are limited to a few categories: national-security concerns, statutory requirements and lack of price-competitive contractors.

Reagan ordered the OMB to compile contracting opportunities and publish them in the *Federal Register*.

The office also must devise a system to track the progress made by federal departments and agencies in contracting out.

"This executive order will help the cause [of firms that wish to do business with the federal government] because it puts the President's weight behind [Circular] A-76," says David Muzio, OMB's deputy associate administrator for procurement policy. Circular A-76 is a longstanding statement of federal policy requiring that, whenever possible, the government should obtain its goods and services from private companies.

Because the order will likely remain in effect in future administrations, Muzio says, it should help the lag in contracting that traditionally occurs in a change of administrations.

This slowdown occurs, he says, because members of the outgoing administration lose enthusiasm for their jobs and it takes a while for their successors to learn those jobs.

*Food service at the Office of Personnel Management cafeteria in Washington was contracted out to a private-sector*

*firm. More such opportunities should arise under a new directive from President Reagan.*



PHOTO: DAVID WILGOS

## Opening Up Canada

Small-business owners, especially those in northern states, could reap a market and manpower windfall if the U.S. Congress and the Canadian Parliament ratify the draft trade agreement negotiated in late 1987.

A major goal of the treaty between the two nations that already have the world's largest bilateral trade—more than \$130 billion of goods and services crossed the U.S.-Canadian border in 1986—is to reduce nontariff barriers.

Among such barriers as seen from the U.S. side of the border are product standards and testing requirements that appear aimed at excluding imports from the United States. Other examples include "buy-Canadian" policies set for certain government purchases and purportedly weaker protection in Canada for U.S. intellectual property such as movies and books.

U.S. negotiators also say the treaty will make it easier for Canadian investors to enter U.S. markets and provide a new source of capital.

Negotiators say the treaty will ease

travel restrictions—another common nontariff barrier—on business and some professional people who cross the border for jobs. This could make it more attractive to use Canadian professionals such as architects, engineers and some consultants. Your business could be attractive to them because of currency exchange-rate differences.

## Conference On Service Trade

Small firms in the service field could benefit if legislation calling for a White House conference on international trade in services becomes law.

The measure, introduced recently by Sen. Daniel Patrick Moynihan (D-N.Y.) and Rep. Barbara B. Kennelly (D-Conn.), would bring together representatives from the private sector, government agencies, trade groups and international organizations.

As defined by the legislation, "services" include industries ranging from finance and insurance to telecommunications and tourism.

A major aim of the conference would be to determine ways to expand the



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Position

Years at Job

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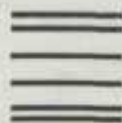
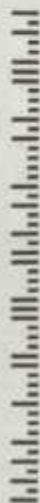
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existing trade surplus in services, says Andrew Samet, legislative counsel to Moynihan.

Backers of the measure point out that the United States continues to register a trade surplus in services even though the nation's manufacturing trade deficit is enormous.

In addition, data from the gathering would prove useful to U.S. negotiators during General Agreement on Tariffs and Trade (GATT) discussions on international services trade.

The outlook for passage is good, says Samet, who expects the measure to clear Congress in 1988.

### Tax-Audit Targets

Prospects for being targeted by the Internal Revenue Service for a tax audit are much higher for small-business owners than for other individuals.

For individuals, roughly one of every 100 returns is audited. For those who own unincorporated businesses that gross more than \$100,000 annually, chances of an audit are almost five times as great.

Taxpayers who file a Schedule C, typically used for unincorporated businesses, will feel even more heat from the IRS in 1988, according to the National Institute of Business Management, a private business-advisory organization in New York. The IRS maintains that 40 percent of unreported income can be traced to unincorporated businesses with gross receipts less than \$100,000. A typical audit of a business in this category nets the agency \$25,000.

The Institute offers these tips to lessen your chances of being audited:

- Include income that wouldn't normally be found if unreported, in order to show the IRS your honesty and attention to detail.
- Attach documentation or other explanatory items for unusual deductions but not for things that wouldn't normally attract attention.
- Make sure your math is correct. Returns with math errors are caught by IRS computers.

### Set-Aside Reforms Advance

Long-awaited reforms in a federal program to aid small, minority-owned businesses have won House approval and await Senate action, expected early in 1988.

A bill containing the first substantial revisions in 10 years to the Small Business

Administration's Section 8(a) program passed the House by voice vote December 1.

The bill's major provision would require competitive bidding for all contracts exceeding \$2 million.

Under current 8(a) law, such contracts may be awarded without competition. This practice has led to a number of scandals involving political favoritism.

The 8(a) program was enacted in 1978 to foster business ownership by the "socially and economically disadvantaged."

Through the program, minority-owned firms received more than \$3 billion in federal contracts last year.

The reform bill also would crack down on waste, fraud and abuse. For instance, penalties for operating a "front company"—a purportedly disadvantaged company that is not really minority-owned—would increase substantially. The maximum fine climbs from \$50,000 to \$500,000, and the maximum jail sentence doubles, to 10 years.

Rep. John J. LaFalce (D-N.Y.), chairman of the House Small Business Committee, praised the bill, saying, "No longer will the 8(a) authority be used to run the program as a dispenser of sole-source contracts to relatively few firms." ■

## Quoteworthy

"I've been in [the service-station] business for 40 years; if I had to notify all my past employees [of potential health risks to which they might have been exposed], I wouldn't know where to begin to find them. Would the government know where to find them? Would you know where to find them? 'Right-to-Know' provisions would be simply impossible" to comply with.

—Lyle Swatek, president of Swatek Sales Corporation, Lake Geneva, Wis., on the High Risk Occupational Disease Notification Bill now before Congress.

"Since consumers seem not to understand the detrimental effects of purchasing such huge volumes of imported goods, something should be done to discourage them. We are losing a tremendous number of jobs to imports."

—L. Gene Griffiths, Jr., president of Gregory Manufacturing Company, a wood-products firm with 62 employees in Jackson, Miss.

## This Month's NB TIPS

*The Hidden \$17 Billion U.S. Government Market* is a new publication for small firms that would like to do business with the public sector. This 68-page guide explains how to help satisfy the government's need for off-the-shelf commercial products and common services.

Researched, compiled and written by two experienced contracting marketers, the publication is available from Danbury Press, P.O. Box 613, Suffern, N.Y. 10901. It costs \$24.95, plus \$2.00 for shipping.

Another aid to small companies that would like to display their wares in the federal marketplace is

"How To Sell to the Federal Government."

This brochure suggests agencies to contact and government publications to acquire. It also identifies lists of companies the government contacts for bids. You might want to be added to some of those agency listings. Addresses and telephone numbers are provided. Write the U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062; or call (202) 463-5330.

Looking for a German importer, distributor, licensee or joint-venture partner? *Business Opportunities*, the first magazine devoted exclusively to U.S.-German trade, might be helpful. The author is a former director of the U.S. Trade Center in Frankfurt. For more information about the publication, write Robinow & Partners, International Business Consultants, Pienzenauerstrasse 58, D-8000 Munich 1, Germany; or call (89) 98 41 57.



# Cooling But Still Favorable

By Roger Thompson and Joan C. Szabo

**S**mall-business owners registered strong sales and profits in 1987 and are highly optimistic that, despite the turmoil in financial markets, they will do the same in the new year.

Their optimism has withstood the deluge of predictions from economic forecasters that jittery consumers would curb spending drastically in 1988 because of the mid-October Wall Street plunge that wiped out \$500 billion in stock values in one day.

A nationwide survey of 8,000 owner-managed small businesses indicated they remain upbeat, with almost 80 percent expecting Wall Street's gyrations

to have no impact on their operations.

"Sales, profits, number of employees, compensation and productivity" of the small companies all registered increases in 1987, says Steven J. Appel, managing director of small-business services for the Chicago-based accounting and consulting firm of Arthur Andersen & Company, which conducted the survey.

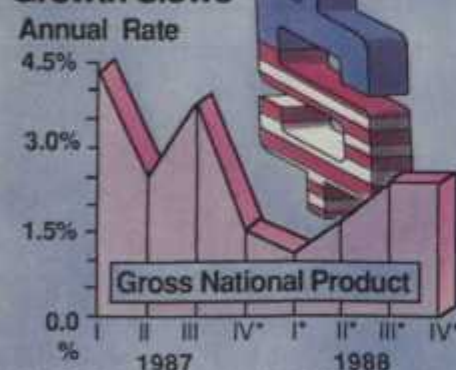
The owner-managers anticipate an even better year in 1988. Over 80 percent expect sales to increase; nearly 70 percent expect profits to improve; and almost half expect to hire more employees, while only 7 percent expect to cut their work forces.

A survey of members of the Small Business Council of the U.S. Chamber of Commerce produced similar results. Most plan no cutbacks in employment or capital spending, and an overwhelming 80 percent reject the idea that the market's problems will trigger a recession (see Page 20).

In fact, troubles on Wall Street may end up helping businesses on Main Street, says Thomas A. Gray, chief economist for the U.S. Small Business Administration. He notes that interest rates fell immediately after the drop and that Washington was forced to tackle the federal budget-deficit problem. "As a result, the correction on

## 1988 Key Economic Indicators

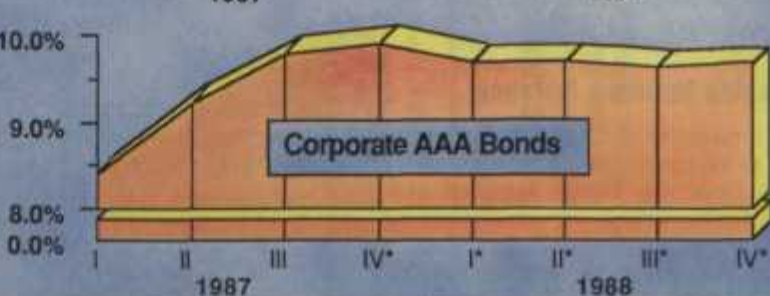
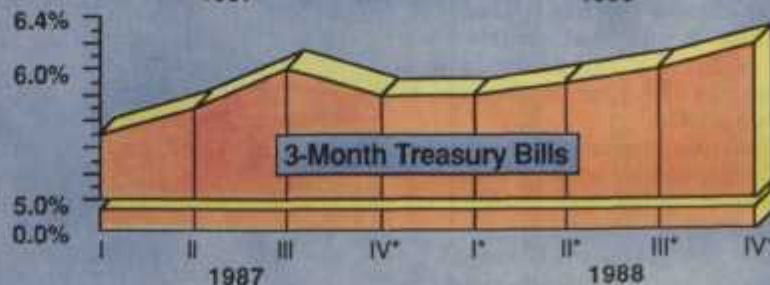
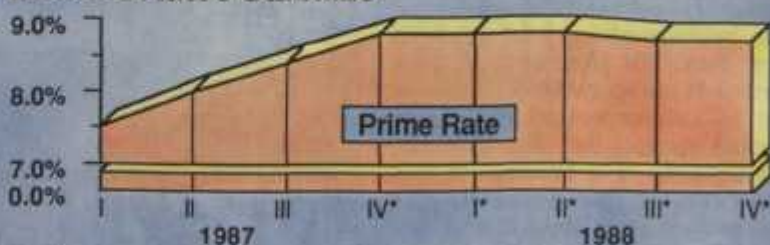
### Growth Slows



### Inflation Stays In Check



### Interest Rates Stabilize



Source: Blue Chip Economic Indicators \*Forecast



*Despite the gloom-and-doom scenario predicted by some forecasters after October's stock-market setback, most small-business owners see 1988 as another year for growth.*



Wall Street may help lengthen the ongoing expansion," says Gray (see Page 21).

Two major perspectives must be considered, however, in appraising the economic climate in which small businesses will operate in 1988. One centers on the expectations of small-business people who use their own companies and industries as reference points. The other consists of the views of economic analysts who provide a general overview of business.

Most economic forecasters agree with small-business people that the record expansion—now in its sixth year—will continue through 1988.

That, for example, is the consensus forecast of 49 top financial analysts surveyed monthly by *Blue Chip Economic Indicators*, a Sedona, Ariz., newsletter.

But those analysts are tempering their optimism following the stock market's "Black Monday," last October 19. Although most still expect the economy to continue growing next year, they expect the pace of growth to be slower.

The *Blue Chip* consensus puts gross national product (GNP) for 1988 at 1.9 percent, down from 2.6 percent in 1987.

Richard Rahn, chief economist of the U.S. Chamber of Commerce, expects slower growth in the first half of 1988

"as a result of the tight money-supply policy the Federal Reserve Board has been following" since last spring.

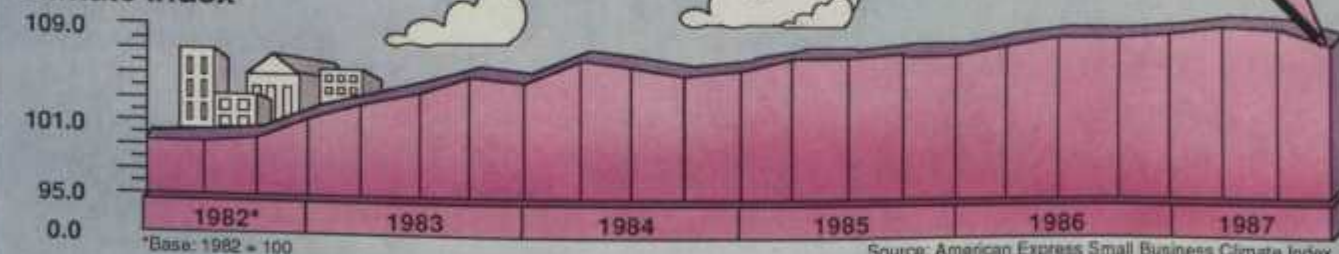
To avoid turning the economic expansion into a recession, he warns, "the Fed must expand money-supply growth now in order to ensure rapid economic growth in the latter half of 1988." With a proper expansion of the money supply, Rahn says, "1988 could be a year of rapid growth."

Other economists who track the small-business sector see problems stemming from additional factors pre-dating the market decline.

First, they worry about a further contraction in consumer spending,

## Small-Business Indicators

### Climate Index



### Swings In Consumer Moods

Percentages represent the share of the group feeling positive or neutral about their economic status.



### Growth Index Shows Strength\*

	% Employment Change	% Sales Change	% Change In New Incorporations Rate	Small - Business Index
New England	+2.18	+1.84	+10.85	+4.96
Mid-Atlantic	2.12	1.06	7.71	3.63
East North Central	2.03	1.21	4.61	2.62
West North Central	1.49	1.77	3.18	2.15
South Atlantic	2.34	1.44	2.44	2.07
East South Central	0.42	0.27	5.43	2.04
West South Central	1.89	0.81	2.13	1.61
Mountain	1.20	0.65	9.96	3.94
Pacific	2.24	1.89	-6.92	-0.93
All small business	1.86	1.27	3.57	2.23
All large business	0.51	0.10	na	na

Source: American Express Small Business Growth Index

\*First half of 1987



## COVER STORY

## Cooling But Still Favorable

which began early in 1987 as real income gains slowed with a pickup in inflation. Inflation-adjusted wage growth is not expected to rebound soon, they say. In addition, consumers face record debt loads that may discourage spending. "Installment debt now makes up 19 percent of disposable income—the highest level since World War II," says Robert J. Eggert, who conducts the monthly *Blue Chip* survey.

The impact of Black Monday on consumer spending remains unclear. Confidence among those who own stock, less than 30 percent of the population, plummeted immediately after October 19, but rose for those who do not. Major retailers reported only slight sales gains in November. While the figures were disappointing, they were not as bad as some forecasters had feared.

Says William C. Dunkelberg, dean of the business school at Temple University, in Philadelphia: "The main concern of small business in 1988 has got to be the cash coming in the front door."

Robert Dederick, chief economist at Chicago's Northern Trust Company, expects consumer spending to increase

1.5 percent in 1988, down from 2.2 percent through the third quarter of 1987.

James Newton, president of Economic Perspectives, Inc., a Delaware, Ohio, market-research firm, expects inflation-adjusted retail sales to drop 0.5 percent in 1988, while spending on consumer services will increase by 1.3 percent. Newton has picked these small-business winners and losers for 1988:

- Durable-goods retailers will be hit hardest if consumers avoid taking on new installment debt. Expect declines in sales of autos, home appliances, furniture, hardware, lumber, jewelry and musical instruments.

- Some durable goods will maintain a favored status even if consumers cut back. Expect growth in businesses that specialize in auto repairs, home supplies, consumer electronics, sporting goods, hobbies and toys.

- Among nondurable-goods retailers, those expected to do well include women's ready-to-wear stores and those for children's and infants' wear. Sales of men's clothing will decline.

- Spending on a variety of consumer services—medical care, personal busi-

ness services and recreational services, for example—will grow, driven by the rise in two-income families.

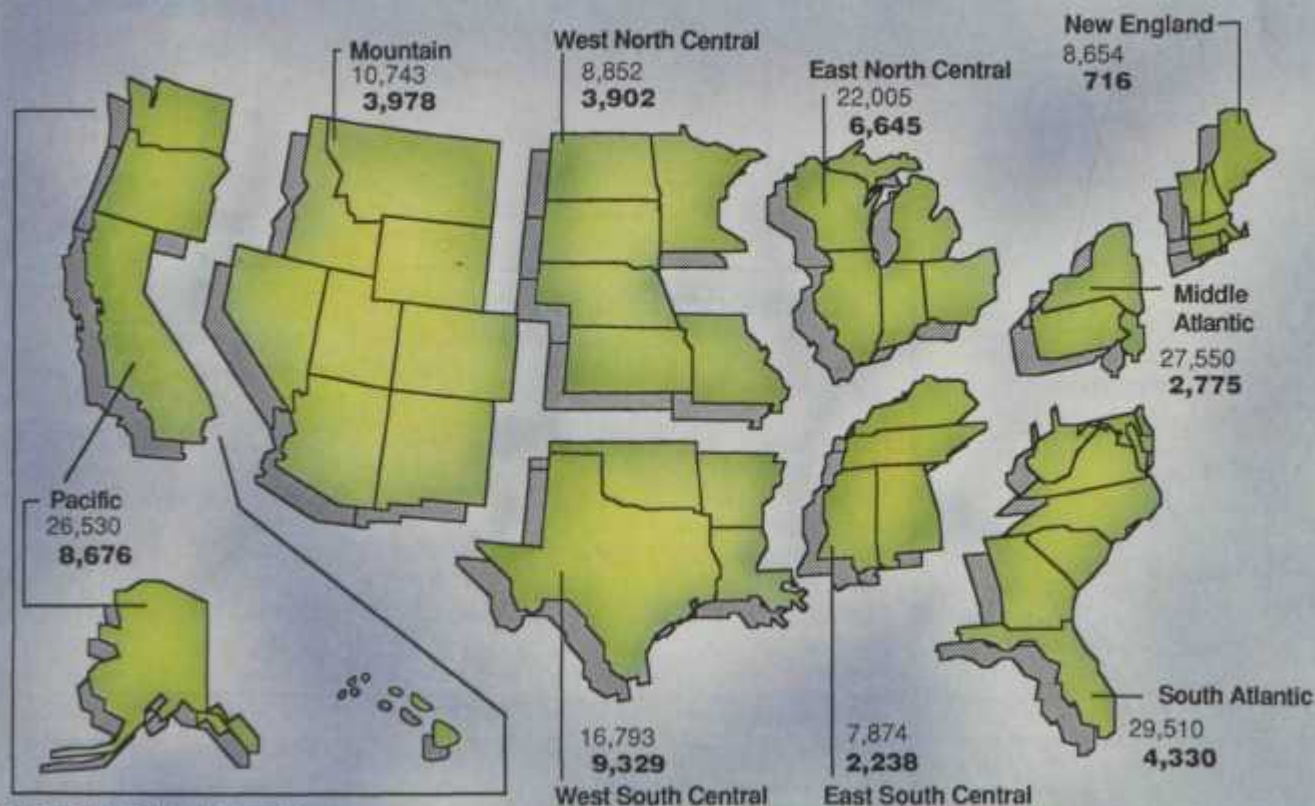
The second trend affecting the small-business climate is the length of the current economic recovery. While five years of economic growth spawned tens of thousands of new small businesses, expansion of the ranks of entrepreneurs produced "more competition and fewer opportunities," says Joseph W. Duncan, chief statistician for Dun & Bradstreet Corporation.

But there is still plenty of room for start-ups, says Richard Rahn of the U.S. Chamber. "There will be many opportunities for entrepreneurs who can offer new goods and services that provide more efficient and cost-effective ways of doing things."

The small-business sector of the U.S. economy, which accounts for most new jobs and half of all goods and services produced, actually began to soften in the second quarter of 1987 and continued to decline in the third quarter, according to one measure—the American Express Small Business Climate Index. The index is a composite of four key

## Business Starts And Failures 1987

Starts and failures through August, 1987.



Source: Dun & Bradstreet Corporation



indicators: demand for products, borrowing costs, operating costs and small-business optimism.

That softening "is the beginning of a trend that will be more down than up," says David Birch, a Massachusetts Institute of Technology economist. He chairs the American Express Small Business Partnership, which develops the index on the small-business climate.

While the climate index showed a slight dip, it remains less than a point off the peak registered in the fourth quarter of 1986 and is 7.84 points above where it stood when the current recovery began in late 1982.

Of the 2.6 million jobs created during the year, Dun & Bradstreet estimates that small businesses accounted for three out of four. And sales grew 12 times faster among small firms than large ones, according to the American Express Small Business Growth Index.

Analysts agree that at least one area of the small-business economy will be exceptionally strong in 1988: small manufacturing companies. The steady decline in the value of the dollar over the past two years has spurred a revival in

American exports as they become relatively less expensive on world markets. (See article on Page 26.) As a result, says Duncan, "small manufacturers that supply exporting industries are going to be a winning sector in 1988."

**S**mall-business owners clearly are more optimistic about the economy than many of the economic forecasters who have looked a year into the future. Yet, despite their optimism, small businesses cannot escape the impact of broader economic trends.

The consensus, as expressed by economist Harold Nathan of Wells Fargo Bank in San Francisco, is that "after Black Monday, growth in the first half will be very sluggish, followed by a pickup in the second half."

Interest rates should moderate, thanks to the Federal Reserve's easier monetary policy and the recent agreement by President Reagan and Congress to trim the deficit by \$30 billion.

Says Mickey Levy, chief economist for Fidelity Bank in Philadelphia: "Short-term rates will come down

through the first part of the year and then trend up in the second half." The *Blue Chip* forecast sees the prime at 8.5 percent in the first half and 8.6 percent in the second.

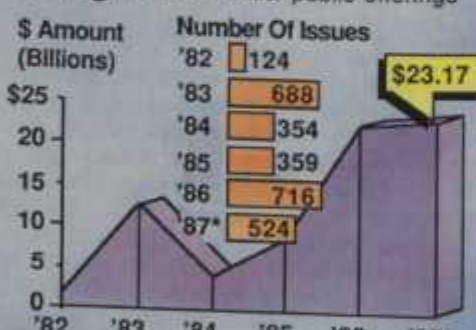
Inflation poses no immediate threat, say economic experts, who expect consumer prices to increase about 4 percent for the year. Black Monday "has knocked out inflationary fears for now," says Donald Ratajczak, director of the Georgia State University Economic Forecasting Center.

But analysts warn that the inflationary pressures could surface again in 1988. Lyle Gramley, chief economist for the Mortgage Bankers Association, says, "The economy could start to accumulate a head of steam, causing inflation to reheat toward the end of the year."

Main Street remained buoyant after the stock-market drop because most small-business owners do not have money in the market, says Arthur Andersen's Steven Appel. "Owners invest their excess capital in their own businesses, so they didn't lose anything."

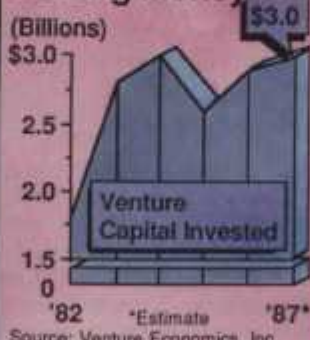
"Small-business owners live in a to-

## Going Public Initial public offerings



\*Through October Source: The IPO Reporter

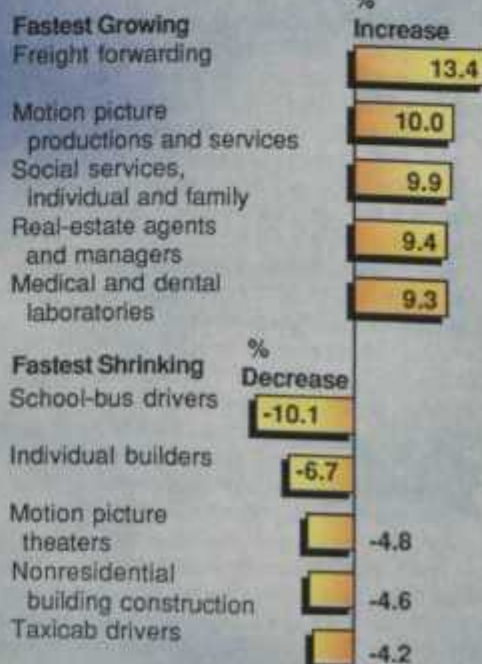
## Raising Money



\*Estimate Source: Venture Economics, Inc.

## What's Hot And What's Not

Percent employment change in small-business-dominated industries June, 1986, to June, 1987



## Employment Gains In 1987 By Size Of Firm

Size Of Firm	% Of Employment Growth	% Of Total Growth	% Of Total Employment
1-19 employees	5.6%	37.0%	17.2%
20 - 49	3.9	12.5	8.
50 - 99	22.7	9.2	8.
100 - 499	2.5	17.0	17.
500 - 999	1.7	4.2	6.
1,000 - 4,999	1.6	7.4	12.
5,000 - 9,999	1.4	2.7	4.
10,000 - 24,999	4.1	10.4	6.
25,000 or more	-0.1	-0.1	17.
All business:	2.6%		

Source: Dun & Bradstreet Corporation

Source: U.S. Small Business Admin., Office of Advocacy



## COVER STORY

## Cooling But Still Favorable

tally different world," adds Birch of MIT. Unlike major corporations, he says, "they don't get their money from Wall Street. Their company values don't go up and down with Wall Street's ups and downs. Their sales for the most part are not tied to Wall Street. They are hiring a lot of people while the Fortune 500 companies are firing a lot of people. They have good reason to believe they are different."

But neither is small business insulated from what happens on Wall Street, he warns. "It may take three, or four, or five months, but people who lost in the stock market may start postponing things, like buying new houses or taking expensive vacations or buying new cars," says Birch.

Birch maintains that the small-business optimism will be the last component of the Climate Index to dip. "Everyone is optimistic until they have reason not to be," he says.

One sector of the small-business economy definitely took a hit from Black Monday—high-growth companies looking to issue their first rounds of stock. "There has already been a

slowdown in initial public offerings [IPOs]," says Susan Gallant, editor of the *IPO Reporter*, a New York newsletter that tracks the IPO market. "Only the strongest companies will be able to go public next year," and they probably will be forced to settle for a lower price per share, she adds.

**E**ven before October 19, business starts for 1987 were down and failures were up as compared with the same period in 1986. But these figures should not be interpreted as a chilling of the climate for small-business growth, says Duncan, of Dun & Bradstreet.

"Fewer starts tell you two things. First, entrepreneurial activity has slowed down generally because of uncertainty about tax reform. Second, it also tells you that the rate of growth has slowed. However, the level of growth is the key you want to look at, and it remains very high."

The rise in business failures stems largely from continuing hard times in energy-producing states, Duncan adds. "If you take out the petroleum states,

failures actually are down a little nationwide [in 1987]."

While few analysts forecast a recession in 1988, most small-business owners are "pretty well prepared" for a downturn should it arise, says Dunkelberg of Temple University.

"Borrowing activity has been running around record low levels. Profits have been very good. And small businesses have done an exceptional job managing inventories."

Even so, caution should govern business decisions in the new year, especially with so much uncertainty about the economic environment. "If you ignore the stock-market signal, then you can be pretty optimistic about 1988," says Dunkelberg. "But I wouldn't advise ignoring the stock market. The best business people in the world fail when there is no demand."

But, he adds, there is no sign yet that demand has dried up: "I went shopping last weekend and couldn't even get through the crowds." ■



To order reprints of this article, see page 38.

## Small Firms Are Relatively Upbeat

Most members of a highly representative group of small-business people remain generally optimistic about how their own companies and the overall economy will perform in the new year.

Members of the Small Business Council of the U.S. Chamber of Commerce were far more upbeat about prospects for their own firms, however, than they were for the economy as a whole in 1988.

The *Nation's Business* survey was conducted to appraise small-business attitudes in the wake of the mid-October plunge in the stock market.

Most members of the Chamber's Small Business Council own small businesses, while the rest are members of legal, accounting or other firms providing services to small businesses and thus can knowledgeably evaluate the grass-roots impact of economic developments.

The Small Business Council advises the U.S. Chamber on ways to serve the needs of small firms and harness the

strength of small business to advance the Chamber's legislative and other programs.

In the survey, nearly 60 percent said they believe the economy in 1988 will do as well as or better than it did last year; the remaining 40 percent said they do not expect it to perform as well.

Some 60 percent say their outlook on the economy is somewhat more pessimistic than it was a year ago. About the same percentage said the effect of the Wall Street events will be negligible and the worst consequence will be slower growth, not a downturn. Only 20 percent said the long-term effect of the stock-market drop will be a recession; the remaining 20 percent say it eventually will be beneficial.

"For the most part, I believe the stock-market crash was a much-needed leveling off of a badly inflated series of company valuations," says council member Adrienne K. Zoble, senior partner with Adrienne Zoble Advertising in Bridgewater, N.J.

When it comes to their own companies, council members become far more positive about the outlook. Eighty percent say they expect their firms' sales and revenues to increase in 1988.

None believe the stock-market drop will have a serious impact on their customers. About 60 percent say their customers will not change their buying habits, while the remaining 40 percent believe that their customers will reduce their purchasing slightly.

The majority of those responding believe that cutting the federal deficit would be one of the most effective steps the government could take to encourage economic health.

And if Washington insists on raising some taxes, says Charles E. Nolan, Jr., president of Charles E. Nolan Jr. & Associates, an architectural firm in Albuquerque, N.M., "Any tax increase should be based across the whole economy and not just on business."

Randall Hayden, president of River City Communications, an advertising firm in Baton Rouge, La., urges "passage of a balanced-budget amendment and line-item veto authority for the president" to achieve fiscal discipline, a view shared by many others on the council.



*Lower interest rates hold the key to a healthy small-business economy in 1988, says Thomas A. Gray, chief economist at the Small Business Administration.*

## What You Can Expect In '88

Thomas A. Gray, chief economist at the U.S. Small Business Administration, responded to our questions about prospects for small business in 1988.

### What will be the economic climate for small business in 1988?

I think that real growth in the economy will be between 2½ and 3 percent for 1988, if the administration and Congress cut the budget deficit by \$25 billion to \$30 billion in fiscal 1988 and \$40 billion to \$50 billion in fiscal 1989.

### Why is deficit reduction of this magnitude important for small companies?

With a lower deficit, the Federal Reserve Board should be able to maintain an accommodative monetary policy with moderate expansion of the money supply and interest rates maintained in a range slightly lower than they are today. Reducing expected federal deficits also should help stabilize financial markets around the world. If that happens, I do not see much chance of a recession in 1988.

### What role do lower interest rates play in stimulating small-business growth?

Housing construction, an industry dominated by small businesses, is particularly sensitive to interest-rate changes. If interest rates decline slightly from current levels, I expect a rebound in housing, which will be a particular benefit to general contractors and to special trade contractors such as plumbers and electricians. Lower interest rates would mean stronger sales of automobiles and housing-related durables such as appliances.

### What's the outlook for small manufacturers?

Small manufacturers should increase output at a rapid rate in 1988. The fall of the dollar has made the United States more competitive in overseas markets and in import-competing markets in this country. As a result, manufacturing output and exports should increase in 1988.

### Is the dollar's fall the only thing boosting small manufacturers?

No. We are seeing major restructuring and downsizing of American manufac-



PHOTO: MARCELLO PIGNARELLI

turing units related to the increased use of computer-driven machinery. Throughout the 1980s, big manufacturers increased "outsourcing," purchasing more components from smaller manufacturers. This gives big business more flexibility and small business more opportunity.

### Will 1988 also be a good year for service businesses?

Service-producing small businesses should continue to grow more rapidly than the economy. Small businesses will expand rapidly in many of the service areas, including business services, particularly computer programming, installation and maintenance; and health services, particularly services related to chronic care.

### What's the outlook for retail merchants?

I think the bloom is off the rose for consumer spending. It has been a tremendous force in the economy for the past five years. But I think consumers will not be as willing to increase their debt load in 1988 unless interest rates fall more than they already have.

### Will a slowdown in consumer spending affect all retailers in the same way?

Housing-related durables are tremen-

dously sensitive to interest rates. If rates remain where they are now or fall even a little bit, then I would predict that consumer durables would be a good area in 1988. But if rates go up even half of a point, it won't mean bad times, but it won't be good times either.

### What about nondurable goods retailers?

I think small retailers are going to face hard times because consumer spending is slowing and because there is a structural change going on in retailing. More and more retailing is being done through specialty shops at the expense of "mom and pop" stores.

### Why is consumer spending slowing?

Consumers came out of the 1981-82 recession with a lot of pent-up demand. It took them four to five years to fill many of those needs. It only takes a small drop-off in purchases to change consumer spending from a powerful force to a neutral force.

### Will October's stock-market decline have any effect on consumer spending?

Yes, it will have a limited effect on spending in certain luxury categories, such as luxury vacations and automobiles. It may also have some negative effect on home sales. But these are probably short-term effects which will be offset by improved conditions in 1988, if we can keep interest rates down.

### Do you mean to say that the drop could be good for business?

It has driven down interest rates and appears to be forcing Washington to deal with the budget deficit. This may create a set of conditions that will allow the expansion to go on longer that it would have without these adjustments.

### What happens if Washington doesn't deal effectively with the deficit?

If we don't come to grips with deficit reduction, we can expect more unsettled conditions in financial markets, continued downward pressure on the dollar and upward pressure on interest rates. Export increases related to the declining dollar would probably not occur rapidly enough to offset consumer-spending declines associated with higher interest rates and shaky consumer expectations. The growth of GNP in 1988 would be lower, probably less than 2 percent, and there would be a higher probability of a recession starting by year's end.



# Presidential Praise For Economic Expansion

**F**or over five years—through tax relief and tax increases; spending restraint and spending binges; tight money and loose money; bull markets and bear markets—the Great American Job Machine has kept humming along.

During this growth era of unprecedented length, dating back to Oct. 1, 1982, the machine has churned out an average of nearly 2.8 million new jobs a year. The Department of Labor says nearly 47 percent of all new jobs are "managerial or professional," while only 7 percent are of the low-skill, low-pay variety.

Entrepreneurs and the President celebrated the record recovery at a recent event sponsored by the U.S. Chamber of Commerce in its Washington headquarters.

"In 1981, Ronald Reagan sensed correctly that [America's economic] problems of stagnation and high inflation did not stem from any failure of will or imagination but rather from excessive government," said Oliver H. Delchamps, Jr., chairman of the U.S. Chamber. "We applaud him for putting the 'free' back in free enterprise by persuading Congress to cut taxes, which freed more capital for private investment and enabled ordinary citizens to spend their money the way they chose."

Delchamps presented the President with a plaque that reads: "American business salutes Ronald Wilson Reagan for the economic recovery program that created the longest peacetime expansion in the nation's history."

The President acknowledged that the "growth-oriented tax, spending and regulatory policies which have brought our fellow citizens five years of uninterrupted, inflation-free economic growth couldn't have happened" without the support of business people and their representatives in Washington. Reagan said Chamber President Richard L. Leshner is "the man who is to federal tax rates what Conan the Barbarian was to anyone who got in his way."

Reagan pledged to veto any protectionist trade legislation sent to him in 1988, and he noted that the final rate cuts under the 1986 tax-reform law will take effect January 1, providing the



PHOTO: T. MICHAEL REZA

economy with a "forceful and energetic shot in the arm."

The event also featured the premiere of a film profiling eight small-business people. All had been spotlighted in the "Making It" series in *Nation's Business* magazine or on the "Making It" feature of "Nation's Business Today," the weekday morning news program on the ESPN cable television network. The production of the film was underwritten by American Telephone & Telegraph Company.

The eight entrepreneurs, a cadre of small-business owners who are "making it" through their energy, perseverance and willingness to work long hours, typify those creating the vast majority of new American jobs. Seven of those honored were on the stage as the President spoke. The eighth, a teenager, was in school.

Ucho Lee appeared in the March,

1987, issue of *Nation's Business* magazine. Lee came to the United States in 1974 as a South Korean immigrant with dreams of owning his own company. He worked at odd jobs as a carpenter in Arlington, Va., until he saved enough money to buy a business.

In 1980, he moved his family to Boston and purchased a neighborhood convenience store. He worked 16 hours a day for four years. Since then he has formed Lee Enterprises, Inc., an umbrella organization for laundries, dry cleaners, supermarkets and five commercial properties in the Boston area.

John Shorb says he recommends no particular business-management philosophy—just hard work. Since Shorb was featured on a November, 1985, segment of "Nation's Business Today," his company, Landscape Projects, Inc., has quadrupled its revenues. Shorb started the lawn-mowing and landscaping enterprise out of his parents' home in Rockville, Md., when he was just 13; he will do \$400,000 in business this year.

As a high-school student he worked before and after classes. Today he works out of his own warehouse and employs 10 people.

Chris Rusk, of Crawfordsville, Ind., who was featured in the May, 1987, issue of *Nation's Business*, didn't know he would be starting a business by helping his 6-year-old son learn to hold a pencil correctly. As he watched his son struggle with his grip on the pencil, Rusk took a glob of cookie dough from his wife's mixing bowl and wrapped it around the pencil's base. He made indentations where his son's fingers should be properly positioned, and the Stetro—named after his daughter Stephanie and son Troy—was born.

In 1985, four years after inventing the cookie-dough prototype, Rusk founded Rusko Writing Company, Inc., and started making Stetros out of plastic. He took his little grippers to a National Educational Distributors and Suppliers convention and walked away with orders for 30,000 of the devices. Last year, Rusk's company sold 10 million Stetros and grossed \$500,000.

Jim and Jackie McLean founded a Baltimore-based corporate travel business 11 years ago that now is Maryland's largest independently owned travel service. The McLeans employ



*Celebrating five years of growth in the economy, President Reagan and the U.S. Chamber of Commerce salute America's entrepreneurial spirit and eight men and women who personify it.*



Chris Rusk used cookie dough to help son Troy hold a pencil properly, and the Stetro was born.



Pantyhose inspired Donald Beaver to form his New Pig Corporation and market a cleanup product.



Jim and Jackie McLean have the largest independently owned travel service in Maryland.



Robert Dunlap and his daughter Rachel produce animated short films that have aired in 78 countries.



John Shorb founded Landscape Projects, Inc., when he was 13. Today he employs 10 people.



Ucho Lee, a South Korean immigrant, worked odd jobs until he could buy a business.

more than 100 people in 14 locations in four states. They were featured in an April 3, 1987, segment of "Nation's Business Today."

The McLeans say that their Four Seas and Seven Winds travel company has far surpassed their original expectations. But they have overcome obstacles along the way. Jim says they have sometimes faced racial discrimination because he and his wife are black. But their strong marriage and their faith in themselves have fueled the company's growth. Last year the company grossed more than \$25 million from 300 clients.

**Robert Dunlap and his daughter Rachel**, principals in another winning partnership, were featured in the December, 1986, issue of *Nation's Business*. They started R.E.D. Productions, a Los Angeles-based film-production company, during the Screen Actors Guild strike of 1980. Robert, who was the

"Orkin man" in television commercials for nine years, saw his acting opportunities drying up and decided it was time for a change. But it was daughter Rachel, now 15, who inspired the business with a story she had written for a school spelling project when she was 8 years old. Her father thought it was so good it should be animated. Robert took his daughter as a business partner (Robert handles the finances while Rachel does the creative work), and they turned their garage into a studio. Since 1980 they have produced 20 works that have aired in 78 countries.

**Donald Beaver**, of Altoona, Pa., appeared on an April 27, 1987, segment of "Nation's Business Today." Beaver says his wife's panty hose gave him the idea for a device that led him to start his own business. While running an industrial cleaning business, Beaver sought a better way to soak up heavy

oil on the floors of manufacturing plants; the typical practice of throwing clay-pellet cat litter on the oil created a labor-intensive and costly clean-up job.

Beaver fashioned a tubular sock out of panty hose and filled it with the pellets, which provided a more efficient way to clean up and dispose of the oil-soaked material. He named the sock a Pig, which stands for "partners in grime."

Since founding the New Pig Corporation in 1985, Beaver has switched to a new, more-absorbent material obtained through an exclusive agreement with the Du Pont Company. Though a dozen imitators have entered the arena, Beaver is adding more than 700 customers a month to his huge client list of 16,000 plants in the United States and abroad. At last count, says Beaver, he was servicing 472 of the nation's 500 largest manufacturers. **■**



## PEOPLE

# Making A Mark— Beautifully

*A black entrepreneur builds an empire in the beauty business, which he describes as "selling hope."*



PHOTO: PRO-LINE

Comer Cottrell made his Dallas-based Pro-Line company a major player in the competitive cosmetics industry by creating hair-care products and beauty aids for blacks.

With \$600 and a borrowed typewriter, Comer Cottrell entered the beauty business 17 years ago, marketing his own hair-care formula and building a company whose rapid growth once almost threatened its survival.

From a shoestring start in Los Angeles, Cottrell's Pro-Line Corporation has expanded into a \$26 million company that has 175 employees. With its headquarters now located in Dallas, Pro-Line has become the largest black-owned firm in the Southwest. It was ranked 39th in *Black Enterprise* magazine's 1987 list of the top 100 black businesses in the United States.

Pro-Line's beauty products sell well not only in the United States but also in the Caribbean, Europe, Africa, Saudi Arabia and the Orient.

Cottrell at 55 runs an empire of creams and gels that has become the major success in his career. Nonetheless, some of his ventures over the years turned into disappointments. He struck out with a Chinese restaurant in a black section of Los Angeles, for example. And he sold his stable of race horses after he decided that the sport of kings was not for him. Cottrell has succeeded, as he puts it, in "selling hope—that's all the beauty business is."

Cottrell's decision to get into the beauty business grew out of a discovery he made some years ago.

"I managed an Air Force base exchange and noticed that there were no hair products for blacks," he says. "Twenty percent of the people on the base were black. I talked to the authori-



PHOTO: JIM KNOWLES—PICTURE GROUP

ties, and they told me there was no need for such products." Cottrell then asked various chemical companies if their scientists could come up with products for the care of the then-popular "Afro" hairstyle. A successful formula was developed eight months later.

Since he could not afford to pay a company in advance to make the first batch of his new product, Cottrell persuaded a small manufacturing firm to gamble on him. The company made him a quantity of what he named Pro-Line Oil Sheen hair spray. He peddled his new product to black beauticians and barbers, and he paid off the manufacturer within 20 days.

In 1975, with Pro-Line then five years old, Cottrell opened a distribution center in Birmingham, Ala., but he found it hard to obtain shelf space in area stores. The Chicago-based Johnson Products Company, the market leader

for black cosmetics, had all the displays.

It turned out that the Johnson company's hard-working area manager was Isabell Paulding, who was a former Miss Black Alabama and a onetime runner-up for the Miss Black America title—and who would become Cottrell's wife a year after they met.

In an interview in the *Dallas Morning News* in 1984, Cottrell said: "I got in touch with her and asked her to tell me how she did it. She wouldn't tell me anything. I couldn't hire her, so the only alternative was to marry her."

By 1980, Pro-Line was running out of space for expansion of its Los Angeles plant. Cottrell looked eastward, where his major markets had been developed. He decided to move the company to Dallas—a move that he says nearly killed Pro-Line.

As production lines were being shut down in Los Angeles, Pro-Line came out with its Curly Kit Home Permanent. Sales jumped \$11 million in 10 months.

"Here we were moving our equipment from California to Texas, and we couldn't keep up with the orders," says Cottrell. "Competitors jumped in with similar products."

When the new \$4 million, 127,000-square-foot Texas facility went into operation, Pro-Line fought back to keep its market share. It is now the fourth-largest ethnic beauty concern in the United States.

Strong competition from both general and ethnic firms has led Pro-Line to advertise on prime-time television shows such as "Dynasty" and ABC's "Monday Night Football." Pro-Line purchased time in 20 of the latter show's markets around the country, says Rene Brown, the company's marketing director, in order to advertise a new product for black men. It is a comb-through hair relaxer for those with short hairstyles.

Cottrell has a group of scientists working on new products as well as assuring the quality of those he is producing now. He is cautious, however, about expanding too fast. "We make about 18 percent profit," he says. "We're working on a five-year plan. We want steady growth."

—Michael Whittaker



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Road & Track,  
September, 1986

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Road & Track magazine recently tested eight popular radar detectors. SNOOPER D-4000 won big. In actual road tests where it counts. Around the corner and over the hill radar ambushes. What about current best-seller Passport? "... second only to the SNOOPER D-4000." Sorry guys.

Fact: The SNOOPER D-4000 beats Passport on performance. Fact: It costs \$115 less! No doubt who won.

*"The SNOOPER D-4000 produced the earliest warning in our around-the-corner and over-the-hill tests."*

Road & Track, September 1986

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circuitry. The pioneer in remote devices. Maybe that's why SNOOPER came in first. Innovation and experience!

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## Only \$180! If you can afford one of theirs...

... why not buy TWO of ours? ONE Passport costs \$295. For just another \$65 more than that, you can have TWO of ours. Protect other drivers in your family against radar surveillance, too. SNOOPER D-4000 is the top-performer, and at only \$180, it's the runaway winner for top value.

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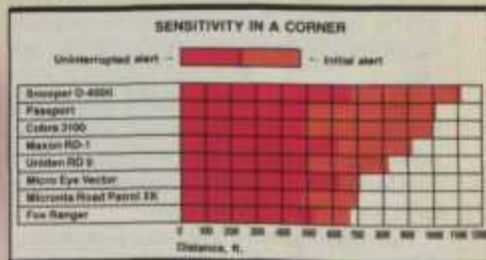
The SNOOPER D-4000 is a triple superhet advanced radar detection device. Sniffs

out both X- and K-bands radar, alerts you with a loud audible signal and simultaneous warning light.

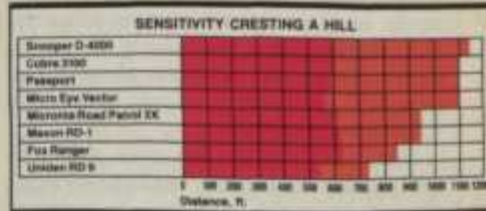
Filters out false alarms, and "dirty" signals from other radar detectors. Comes with visor clip and dashtop mount. Plugs into car cigarette lighter. On/off and highway/city switches. Simple. No complicated dials or bar graphs to slow your reaction time.

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# Export Expertise

By Steven Golob

If you're looking to expand your company's market but you're concerned about selling in strange lands, you can find plenty of familiar folks here at home to help you. You just have to know whom to look for and where to find them, which is what this section is all about.

But first, if you're not looking to expand, then consider the competition that is looking to do so—at your expense. Competitors for your market share are constantly working to make their production more efficient or their product better designed. Exporters have an edge in this competition because they are the first to learn of new efficiencies and designs from abroad.

All U.S. exporters benefit when the dollar is down and the economies of foreign markets are strong. The time is now. For U.S. companies with goods and services that are technologically advanced, or unique or simply unavailable overseas, the time is always. Now, the rewards are greatest.

Some 250,000 U.S. manufacturers have products with export potential, experts say, yet just 250 firms account for 80 percent of America's exports. And nearly half of the total overseas sales of those 250 firms are made by the top 50.

Nevertheless, while these exporting behemoths roam the world, small and midsized companies can carve their own comfortable niches in overseas markets.

Take the case of National Graphics.

Back in 1974, Bob Gould started the lithographic film-making firm. He had seven employees, and he went after the U.S. market from his base in St. Louis. Even though his new firm already had nine U.S. competitors, Gould didn't look to overseas markets.

National Graphics has since grown to 100 employees largely because of sales abroad. It might even owe its survival to the first of those sales.

When the domestic competition forced National Graphics to switch product lines to photographic papers and chemicals, Gould salvaged operating funds by selling his leftover lithographic film at a discount to a buyer in South Korea. Then he set up an overseas marketing system that allowed National Graphics to enter foreign mar-



PHOTO: TOM EBERHORN

kets with less capital than might have been required, but with slightly lower profits than might have been expected.

Under the system, overseas distributors pay all shipping and related costs, as well as expenses for advertising, marketing and technical services. In return, these distributors receive a discount larger than that given to National Graphics' U.S. distributors.

"We distinguished ourselves through our marketing," explains Gould's daughter Elizabeth, who is now second-in-command at the company. The unusual marketing system allowed National Graphics—with its different product line—to expand overseas in the shadow of its three U.S. competitors, whose 1986 export sales totaled \$5.6 billion.

*Help is at hand for businesses that decide to increase profits and sharpen their competitive edge by carving niches in foreign markets.*

*"There is a lot of help out there" for small exporters, says Elizabeth Gould, whose National Graphics gained an edge through exporting.*

Elizabeth Gould warns small businesses that aren't exporting: "You can be selling in the United States—and be fat and happy—then have some foreign competition come in. In order to remain viable, it is very important to learn other markets."

For companies concerned about taking that first step overseas, she adds, "There is a lot of help out there." She cites the U.S. Commerce Department's district office in St. Louis as being particularly helpful to National Graphics.

Commerce is the federal agency most responsible for promoting and facilitating exports. The department has 1,200 trade advisers in 67 offices in this coun-



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## MANAGING YOUR BUSINESS

## Export Expertise

## Banks That Can Aid Exporters

Difficulty in obtaining export financing and services from U.S. banks was shown by a *Nation's Business* survey as a principal reason why small and mid-sized American companies have not

moved more aggressively into exporting.

Small and mid-sized banks, the ones that generally work with many of these businesses, often are not sufficiently world-wise. And among regional banks, according to a study last fall commissioned by the American Bankers Association, the "international function is opportunistic and selective."

That means those banks will work

with clients when the banks' opportunities to profit are greatest or when the clients already are customers of the banks' domestic services.

Big U.S. banks are usually the most able to offer export financing and the most interested in providing international services. Below are some of the biggest banks and the names of the bank officials in charge of different aspects of export financing and services.

Bank Name	International Banking	Acceptance Financing	Euro & Local Currency Financing	Export Financing
Citibank, New York	not available	Mike Kelly (212) 303-6948	Pradeep Kashyap (212) 559-4694	William Thomas (212) 303-6955
Chase Manhattan Bank, New York	Donald L. Boudreau (212) 552-7176	James Løverude (212) 552-6521	James P. Borden (212) 552-7543	Peter L. Rapuzzi (212) 432-8075
Bank of America, San Francisco	Dan Cecchin (415) 622-6238	Court Tanouwe (415) 624-2604	Roger Roberts (415) 953-5753	Harry Shourie (415) 624-3943
Chemical Bank, New York	William H. Harrison, Jr. (212) 310-6161	William H. Blanc (212) 310-6161	S. Waite Rawls (212) 310-6161	Charles F. Meissner (212) 310-6161
Morgan Guaranty Trust, New York	not available	Atwood Collins (212) 504-6541	Walter Gubert in London Number not available	George D. Cashman (212) 483-3721
Manufacturers Hanover Trust Company, New York	John Simone (212) 286-3003	William Cuggy (212) 623-2543	James R. Brokken (212) 286-4944	Malcolm P. Davies (212) 286-3233
Security Pacific National Bank, Los Angeles	Robert Manheimer (212) 836-5210	Robert Manheimer (212) 836-5210	Robert Manheimer (212) 836-5210	Robert Manheimer (212) 836-5210
First Interstate Bank of California, Los Angeles	Francis Shanahan (213) 614-4831	Charles Minehart (213) 239-2651	Harold Meyerman (213) 614-4901	Hugh Darling (213) 614-4008
Wells Fargo Bank, San Francisco	Will Wood, (415) 396-6416	Walter Menezes (415) 396-4466	Roger Hartman (415) 396-7282	Mary Carrier (415) 396-6405
First National Bank of Chicago	Leo Mullins (312) 732-6200	Gerald Byrne (312) 732-8313	David Harvey (312) 732-5369	Simon E. Amich (312) 732-5251
Republic Bank Dallas	John Faib (214) 977-3550	Ronald Mikeska (214) 977-3583	Paul Tyler (214) 977-2803	Willis Fritz (214) 977-3648
Continental Illinois, Chicago	Leonard W. Busse (312) 828-6402	Roger H. Sherman (312) 828-2330	William L. Gunlicks (312) 828-4690	Roger H. Sherman (312) 828-2330
Bank of Boston	Clark W. Miller (617) 434-8466	Susan S. Talbot (617) 434-8880	John A. Devine (617) 434-4158	Stewart Sutin (617) 434-2012
Pittsburgh National Bank	Lee D. Cutrone, Jr. (412) 762-2381	James E. Rohr (412) 762-2294	William V. Armitage (412) 762-3952	George B. Miller (412) 762-2047
Bank of New England, Boston	William Marshall III (617) 973-1624	Susan Clark (617) 973-1615	David Pettit (617) 367-3180	Walter Keating III (617) 973-1842
Trust Company of Georgia, Atlanta	F.J. Kress (404) 588-8707	Robert Hinton (404) 588-8123	Robert Hinton (404) 588-8123	Marie Tenaglia (404) 588-8174
NCNB Corporation, Charlotte, N.C.	J. Mark Paden (704) 374-8790	Jurgen F. Strasser (704) 374-5693	Richard Gross (704) 374-8007	Doug Buchanan (704) 374-8329
First Union National Bank, Charlotte, N.C.	David H. Dorminey (704) 374-6274	Maryann Pizzulo (704) 374-4371	Gary T. Collins (704) 374-6843	David Morrow (704) 374-2328
Marine Midland Bank, New York	John Cooper (212) 912-2935	Donald C. Parcels (212) 912-2780	Richard Keller (212) 440-5706	Griselda Alvizo (212) 912-2806
National Bank of Detroit	William R. Flynn (313) 225-1000	Dennis M. Nicholas (313) 225-1000	Louis Betanzos (313) 225-1000	Dennis M. Nicholas (313) 225-1000
MBank Houston	Daniel A. Gramatges (713) 751-6388	Bruce R. Callender (713) 751-3668	David R. Vining (214) 290-4128	Edgar D. Wilson (713) 751-6126
Barnett Bank of South Florida, Miami	Robert Duckworth (305) 350-3095	Edgar H. Nugent (305) 883-2502	Richard Lobdell (305) 825-6359	Manuel Fernandez (305) 350-7126
Norwest Bank Minneapolis	Darin Narayana (612) 372-7957	Duc Lam (612) 372-9240	Duc Lam (612) 372-9240	Bonnie Neubeck (212) 372-0975
Citizens & Southern National Bank, Atlanta	Roswell S. Bowers (404) 581-2350	Frank Roedi (404) 581-2957	Paul W. Niblock (404) 581-2075	Frank Roedi (404) 581-2957
Wachovia Bank & Trust, Winston-Salem, N.C.	A.L. Furr (404) 332-5902	Greenfield Pitts (404) 332-8148	Don P. Carson (404) 770-6028	William C. Edwards (404) 770-5976



Edward Sanders, right, president of IPAC, Inc., a trade-consulting firm, and Takeshi Kondo, senior vice president of C. Itoh & Company, a

trading firm, are among the kinds of experts with whom novice exporters will want to have lunch.

try and 127 offices in 66 other countries.

But before meeting with one of Commerce's trade advisers, consider spending \$19.50 on two books put out by the department.

*A Basic Guide to Exporting* (\$8.50) is a beginner's bible, containing all you need to know to get into exporting. For instance, it has addresses and phone numbers not only for the 194 Commerce offices mentioned above, but also for 521 other groups, public and private, in the United States and abroad. All offer information for U.S. exporters.

The guide also takes the first-time exporter through the steps from making the first export sales contact to collecting the cash for the goods or services, introducing all the intermediaries along the way and explaining what they do. The book even has information on 140 other books and periodicals covering specific areas of interest to U.S. exporters.

**T**he other book that would be a wise investment (\$11) is *Partners in Export Trade*, a state-by-state directory with information on 4,500 companies, including banks that finance exporters; companies, manufacturers and service organizations that are exporters; and management companies, research firms and others that assist exporters.

The books are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; (202) 783-3238.

The books' lists of organizations and companies are all-inclusive. They do not distinguish, say, an established, full-service trading company from a beginner with a Teletype machine trying to conduct world trade out of a broom closet. That's your job.

You do it by getting the facts, says J. Browning Rockwell, who runs a full-service trading company. You do that, he says, "by calling and finding out how long the firm has been in business, how many employees it has, what exporting services it offers, what products it handles, which U.S. companies it has had as clients (references) and which financial institutions it has arrangements to get financing from."

Rockwell's firm, Horizon Trading Company, in Washington, handles in-house all aspects of exporting for a manufacturer, including market research, marketing, financing, insurance, packing, shipping, documentation,



PHOTO: T. MICHAEL KEZA

customs clearance, warehousing and distribution. A manufacturer, instead of buying such services, may choose to sell the product to Horizon, one of the comparatively few U.S. trading companies that will take title to the goods.

Sometimes Horizon obtains a client when a company that hasn't been exporting receives an inquiry about its product from abroad. Rockwell says

small and midsize companies often ignore such inquiries because they're not set up to sell overseas. "Those inquiries are a gold mine," he asserts.

If an exporting gold mine right about now is just what your company needs, you can learn how to proceed from trade consulting and market research firms.

Choose from among those in your

## Help From Books And Seminars

Small-business owners seeking help from the government on how to export have more than a dozen cabinet-level departments and federal agencies from which to choose.

You'll want a copy of the *Exporter's Guide to Federal Resources for Small Business*—the program for the U.S. government players in the exporting game. The 111-page paperback explains the role of each federal department and agency, and provides the names, addresses and phone numbers of numerous government contacts for export assistance.

The *Exporter's Guide* is available for \$3.50 from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; (202) 783-3238, or from regional offices of the Small Business Administration.

The SBA prepared the *Exporter's*

*Guide* with the financial help of American Telephone & Telegraph Company. AT&T is financing another SBA-led export-assistance project—a series of seminars across the country in 1988 to guide small businesses through the export process.

Included in the seminars will be instruction sessions led by volunteers with international trade experience from SCORE—the SBA's Service Corp of Retired Executives—and from other agencies. (For more information, contact the U.S. Chamber of Commerce or an SBA regional office.) Here are the locations and dates of currently scheduled seminars: Los Angeles, March 17-18; Atlanta, March 24-25; Boston, April 7-8; New York, April 20-21; Kansas City, April 27-28; Detroit, May 12-13; Portland, Ore., May 16-18; Dallas, Sept. 15-16; Denver, Sept. 22-23.



## MANAGING YOUR BUSINESS

## Export Expertise

area listed in *Partners in Export Trade*. Though the firms list their capabilities and interests, you'll have to check to make sure the firm knows your business and its own—exporting. Many don't. As the Commerce Department states up front in its directory: "We accept no responsibility for the accuracy of the information."

**I**n Washington, the International Planning and Analysis Center, or IPAC, Inc., as it is better known, has two retired U.S. Air Force generals on its staff for the military side of its trade consulting. For marketing research and support abroad, IPAC is building a correspondent network of foreign firms; there are six so far. "While we occasionally send some of our people overseas," says IPAC President Edward Sanders, "to provide cost-effective support and staying power abroad, we work with foreign firms."

Sanders suggests that a U.S. company looking at the export market should decide at the outset "whether it wants to play the general contractor and organize the various support functions within the firm, or whether it wants to get some assistance from an export management company." (Ironically, Sanders also suggests U.S. companies eyeing the Japanese market consider using the same Japanese trading companies that have so successfully broken into the U.S. market for Japanese manufacturers. Four such companies with offices around the United States are C. Itoh & Company, Mitsubishi Corporation, Marubeni Corporation and Nissho Iwai Corporation.)

If you choose to do it all in-house by setting up an exporting unit within your firm, it will be complicated. For example, an ocean shipment would require your employees to learn how to:

- Figure ocean freight and handling charges, then obtain a pier address and delivery date.
- Arrange for packing that would withstand pilferage attempts on the pier and the turbulence of rough seas for as long as a month.
- Coordinate land transportation to the pier.
- Prepare the transportation documents, including a dock receipt, a shipper's export declaration and an ocean bill of lading.
- Prepare the customs documents, which basically include a commercial invoice, a detailed export packing list, an insurance certificate and a certificate of origin that may have to be legalized

*"Whatever service you need to get your product from your factory to the buyer's store, we are prepared to deliver," says Herbert Ouida of the*

*New York-New Jersey Port Authority. Nurturing local exporters now is a key objective of many state development agencies.*



estates were sold

according to country requirements.

- Provide for the completed documents to be forwarded to the appropriate parties.

That's just the minimum that a freight forwarder does to get your merchandise to the country of destination. To get it through customs there and to your distributor, your people will have to play overseas agent, with more arrangements to make and more forms to fill out.

If all that sounds too onerous to take on, and you'd like some export assistance, you can get any amount of it that you want from export trading and export management companies.

Still another place to turn for this assistance is the international trade division of your state development agency. State governments recently have increased their export promotion activity. In the past two years, seven states have opened trade offices overseas to bring the total to 36. California alone spends \$10 million a year promoting its products abroad.

A two-state agency, the New York-New Jersey Port Authority, has formed

a unit called XPORT to provide export assistance for small and mid-sized manufacturers in those two states. "Whatever service you need to get your product from your factory to the buyer's store, we are prepared to deliver," says Herbert Ouida, director of XPORT's 22-member staff.

The New York-New Jersey Port Authority also owns the World Trade Center in lower Manhattan. The 16-acre site includes not only the twin, 110-story towers, but also four other office towers and a 22-story hotel. There are some 20 other, less-imposing centers across the country, with still more being built. Among the centers recently or soon to be completed are those in Long Beach, Santa Ana and Pomona, Calif.; Cedar Rapids, Iowa; Wichita, Kans.; Hartford; St. Paul; and Toledo.

Some centers, like the one in Hartford, were planned to help small businesses in the region break into exporting.

Breaking into exporting, for those who haven't done it, opens up a world of opportunities. And it's not the world of the future. It's now. **B**



*Expectations for the Export Trading Company Act, designed to encourage new exporters, may have been too high, says John Stiner, a U.S.*

*Commerce Department official in charge of administering the five-year-old law.*

## Commerce Gets Mixed Reviews

In 1982, Congress passed the Export Trading Company Act to aid exporters, and the Commerce Department began implementing the law as part of a broad program to reduce the U.S. trade deficit. In the meantime, the U.S. trade deficit has quadrupled.

"Macro-economic problems," explains S. Bruce Smart, U.S. undersecretary of commerce for international trade.

Those problems, according to Smart and many other experts, include the other twin tower of deficits—the federal budget deficit—and the need to keep U.S. interest rates up to finance it. High interest rates here make it more expensive for U.S. manufacturers to modernize so as to compete more effectively over there.

In Europe, high rates have held down growth in markets for U.S. exports. In Japan, they have abetted the propensity to save rather than spend.

In addition, Commerce's campaign to expand exports was made more difficult early in this decade because of the rising dollar, which made U.S. goods more expensive overseas, and the reluctance of many U.S. banks to provide export financing to Third World countries that had been near default on their foreign debts.

Now, however, the budget deficit and interest rates are dropping along with the dollar, the trade deficit has shown a decline, and concern over Third World debt has peaked. But while experts forecast further reductions in the trade deficit, the Commerce Department—which could hardly be blamed for the deficit's rise—should receive little of the credit for any such declines.

Though it is the federal agency primarily responsible for promoting exports, the U.S. Commerce Department is unable to do as much as its counterparts in other countries.

For example, Commerce has about 200 trade specialists overseas; Japan has at least 5,000. In U.S. embassies and consulates, the commercial affairs officer's job is not regarded as highly as the comparable post in the embassies of some other nations. While his counterpart in an embassy of a Western European country may be paid \$100,000 a year, the U.S. official in such



PHOTO BY MICHAEL KEZA

a post typically would receive no more than half to two thirds of that figure.

Last fall in Washington, the Senate Commerce Committee's Subcommittee on Foreign Commerce and Tourism held a hearing on whether the Commerce Department was "providing the necessary services to small and medium-sized businesses in the United States so that they can improve their export performance," in the words of the panel's chairman, Sen. Jay Rockefeller (D-W.Va.).

The testimony was mixed.

Alex Good, director general of the U.S. Foreign and Commercial Service, listed numerous promotion efforts carried out by his branch of the Commerce Department. Some business people responded that the efforts were not effective.

One of Commerce's programs is designed to implement the Export Trading Company Act of 1982. The law basically allows companies to come together for export purposes without worrying about being charged with violating antitrust laws. It is administered

by 17 people with an annual budget of \$746,000. However, in the five years since the act was passed, relatively few agreements have been fostered.

"Thus far, the exports facilitated through [the agreements] have not been significant," according to a 1986 study by the General Accounting Office, an independent investigative arm of Congress. Little has changed since then.

"We have not reached the level of expectations. Maybe the expectations were too high," says John Stiner, who runs the Commerce unit that administers the law.

At the Senate subcommittee hearing, the testimony suggested that Commerce is continually assembling a staggering amount of data and arranging an enormous number of programs that are not being used sufficiently by prospective exporters.

"The Commerce Department is not filled with marketing experts who know how to promote its programs," says Stiner. "We have exporting experts."



# Business Targets Labor's Wish List

By Albert G. Holzinger

**A**s we enter the twilight months of the Reagan presidency, now is the time to embark on a new national course," AFL-CIO President Lane Kirkland declared in opening the federation's recent convention in Miami Beach, Fla.

That course, business organizations are warning their members, isn't much different from labor's old one: more labor and government control over business operating decisions, minimum-wage increases and such mandated employee benefits as medical insurance and parental leave.

Small business is particularly concerned about the potential cost of big labor's legislative wish list. That concern is being heightened by the arrival of the 1988 congressional-election year.

Lawmakers up for re-election might see a chance to garner votes by supporting labor initiatives, business people fear. "I think [the unions] won the Senate for the Democrats in the last elections," says Sen. Orrin G. Hatch (R-Utah).

"Most of the bills on labor's short-term congressional agenda have a lot of superficial appeal," says James C. Paras of the San Francisco law firm of Morrison & Foerster. But a careful study shows how those measures would hurt business people and the overall economy, adds Paras, who is chairman of the Labor Relations Council of the U.S. Chamber of Commerce.

The U.S. Chamber and other business organizations declared in a recent joint statement to members of Congress: "Individually and collectively, [the proposals] represent a European style of government intervention in the economy—a style that has resulted in more than 15 years of only modest job creation in Western Europe."

During this period, the statement continues, U.S. business people, "especially small-business owners, who are the primary job-creating engine of the economy, unfettered by similar restrictions, have produced a net gain of more than 30 million jobs."

At a recent business legislative rally in Washington, Hatch noted that a record 248 representatives were endorsed by the AFL-CIO in 1986. He considers these legislators and about 60 senators to be pro-labor.

*Sen. Orrin G. Hatch (R-Utah): Employers' challenge is to secure the support of enough representatives or senators to sustain presidential vetoes of pro-labor legislation.*



PHOTO: T. MICHAEL KEZA

Although the President is written off by the AFL-CIO as a lame duck, he continues to threaten to veto most labor initiatives. Employers' challenge, says the pro-business Hatch, is to secure the support of the 146 representatives or the 34 senators needed to sustain a presidential veto.

Following is a checklist of the labor-backed proposals most likely to be considered by Congress this spring and summer:

**Plant-Closing Restrictions.** Senate-passed trade legislation would impose stiff penalties on employers of 100 or more who fail to adhere to the measure's plant-closing restrictions. These would require 60-day notification of closings or layoffs of 50 or more employees.

A trade bill passed by the House has no such provision. A congressional conference committee will decide whether the final measure should restrict plant closings.

Even if trade conferees drop this provision—as business is urging because it infringes on its right to manage—then

longer, more comprehensive notification requirements approved by the labor committees of both houses could be brought to the House and Senate floors at any time.

This is the "worst of all the labor initiatives," says Paras.

The President vows to veto such a measure, but U.S. Labor Solicitor George R. Salem warns that business will have to earn this veto through persistent opposition to the proposal on Capitol Hill.

**Occupational-Hazard Notification.** Legislation approved by the Senate Labor Committee and the full House would empower a new Risk Assessment Board to designate potentially hazardous substances.

Owners of businesses using any of the substances would have to identify former and current employees, who would be told of their exposure by the federal government. Employers would have to counsel these employees and monitor their health for life.

Business opponents of the proposal say it largely overlaps existing workplace-safety regulations, most notably the Occupational Safety and Health Administration (OSHA) Hazard Communication Standard. This duplication, they say, would divert resources from risk-prevention efforts.

Business people also express fear that the measure—which labor is billing as an "anti-cancer bill," says Paras—would expose them to new litigation and workers' compensation claims.

Of all the labor bills, Hatch says, this one has the greatest chance of being enacted. Business "did not have its act together early enough on this issue," he charges. "Consequently, [legislation] that didn't stand a chance now is on [Senate Majority Leader Robert] Byrd's short list of 'must' legislation."

Hatch opposes the occupational-hazard proposal because "it wouldn't help much and it would cost billions and billions of dollars."

**Minimum-Wage Increase.** Labor lobbyists say the centerpiece of their legislative agenda is to increase the minimum wage from \$3.35 an hour to \$4.65 an hour by 1990 and to provide for automatic increases thereafter by setting



## From plant closings to parental leave, big labor's congressional agenda spurs small business to lobby against costly, intrusive legislation.

the wage at 50 percent of the average nonsupervisory, private-industry wage.

This is a public-relations effort, these lobbyists admit. Even their own studies conclude that minimum-wage increases result in job losses. But this proposal will be difficult to defeat in an election year, says Hatch.

Paras and other business lobbyists point out, however, that momentum on this issue seems to be swinging their way.

The automatic-escalator provision, they note, is in serious trouble already, and many congressional supporters of an increase indicate privately that they would accept less than \$4.65 an hour.

**Mandatory Parental Leave.** The latest version of this proposal, now before the House Labor Committee, would require employers of 50 or more workers—this number would drop to 35 after three years—to provide 10 weeks of unpaid but job-protected leave following birth or adoption of a child or the serious illness of a child or dependent parent.

This also is largely a symbolic issue for labor. People on Capitol Hill often refer to this proposal as the "Yuppie ladies' bill" because few rank-and-file women workers could afford to take 10 weeks off from work without pay.

But it is much more than a symbolic issue for business. Employers are arguing that requiring parental leave would open the door to a potentially endless series of benefit mandates. Benefits, they say, should be negotiated among employers and employees and not dictated by Congress.

**Double-Breasting.** Legislation approved by the House would prohibit common ownership of separately financed, controlled, managed, equipped and staffed union and nonunion construction companies—referred to as double-breasting, or dual-shop operation.

This is a common practice in the highly competitive construction industry because it provides contractors with added flexibility in bidding for jobs. The National Labor Relations Board and the courts have judged double-breasting lawful.

Business is opposing this legislation, now before a Senate Labor subcommittee, as an unwarranted infringement on

*"Most of the bills on labor's short-term congressional agenda have a lot of superficial appeal" and have to be studied carefully to see how they would hurt business people and the*

*economy, says James C. Paras of the San Francisco law firm of Morrison & Foerster. Paras is chairman of the Labor Relations Council of the U.S. Chamber of Commerce.*



PHOTO: LINDA SUE SCOTT

its right to manage. Opponents charge that, by merging open shops with union operations, the measure would force thousands of construction workers to join unions unwillingly.

"The AFL-CIO's Building and Construction Trades Department faces a problem, and it wants Congress to solve that problem," says Paras. That "problem," he points out, is falling membership.

Twenty years ago, unions represented about 80 percent of employees on major construction projects. Today, they represent only about 30 percent.

Paras adds: "Can you imagine what labor's reaction would be to a bill that would force unionized workers [of double-breasted contractors] to start working open-shop?"

**Mandatory Health Insurance.** A proposal before the Senate Labor Committee would require employers to buy comprehensive health insurance for approximately 24 million employees currently not covered, at an estimated cost of more than \$1,000 per worker. Employers would have to pay 80 to 100 percent

of the premiums, depending on employee income.

Business estimates this proposal would cost about \$25 billion annually, with small businesses bearing much of the burden. Nearly half of uninsured workers are in firms with fewer than 25 employees.

This is the leading attempt of labor and its congressional supporters to force employers to underwrite costs of a social program that taxpayers would never approve if they had to pay for it themselves, says Frederick J. Krebs, director of the U.S. Chamber of Commerce's Employee Relations Policy Center.

"The business community remains firmly united in its opposition to this benefit mandate while supporting the goal of better access to health care for all," says Krebs.

"In a sense," he contends, "this and other mandated-benefits debates are between strategies that enable business to provide a better wage and benefits package and those that compel them to do so, regardless of financial ability." ■



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I want to start a business. Can you give me information on how to write a business plan with which I can approach local banks? Also, I am a disabled Vietnam veteran. Can you provide me with a list of entitlements for veterans?  
*A.M., Cadillac, Mich.*

There are various sources of assistance for writing business plans. Many accounting firms hand out free brochures with detailed information. Bookstores offer a variety of titles, such as *Business Plans That Win \$\$\$*, by Stanley Rich and David Gumpert (Harper & Row, 1985); *How to Write a Winning Business Plan*, by Joseph R. Mancuso, (Prentice-Hall, 1985), and *How to Write a Business Plan*, by Edwin T. Crego, Jr., Brian Deaton and Peter D. Schiffrin (American Management Association, 1986).

You also can hire professionals. Accountants can help with financial statements and projections, consultants can conduct market research, and lawyers can handle legal details.

As for veterans' benefits, Mike Leavick of Vietnam Veterans of America suggests you ask your local Small Business Administration office about the management-assistance program and the special loan fund for vets. Or you can call the SBA's Answer Desk, (800) 368-5855, between 8:30 a.m. and 5 p.m., EST.

### Lists, Lists And More Lists

I would imagine that Uncle Sam keeps lists on just about everything. I'd like to buy some lists for business-prospecting reasons. Where can I find them?  
*T.T., Rockville, Md.*

The Government Printing Office does not sell mailing lists. But you can buy mailing lists from brokers, listed in the Yellow Pages under "Mailing Lists."

Before you buy lists, do your homework, says Sidney Hurlbert, who owns Paramount Lists, Inc., a mailing-list brokerage firm in Erie, Pa.

Decide what you want to accomplish with a mailing list; identify your target audience, its income level, lifestyle and occupations; know the region you want to cover and other basic demographic data.



ILLUSTRATION: WILLIAM COULTER

There are thousands of mailing-list companies in the country.

Beware of those that sell only one or two lists, says Hurlbert, because they may not meet your specific marketing needs.

Shop around before buying. Mailing-list brokers who are also marketing consultants usually have access to a variety of marketing solutions and lists.

Brokers typically charge per 1,000 names. Average prices start at \$15 to \$20 per 1,000.

### Movies To Go

How can I get information about the videocassette-franchising industry?  
*E. S., Tampa, Fla.*

Information on the videocassette industry and franchising in general can be found in the *Franchise Opportunities Handbook*, prepared by the U.S. Department of Commerce and available for \$15 from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

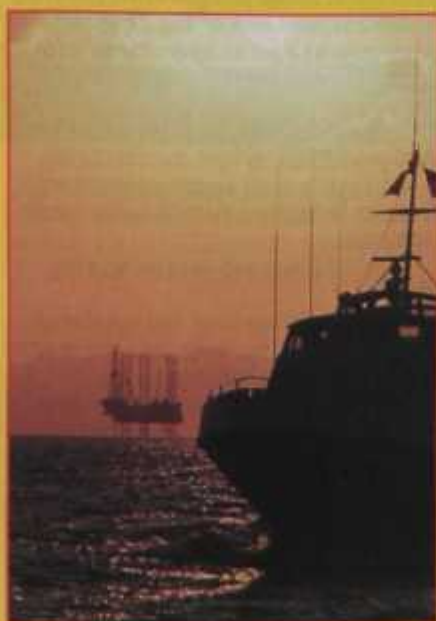
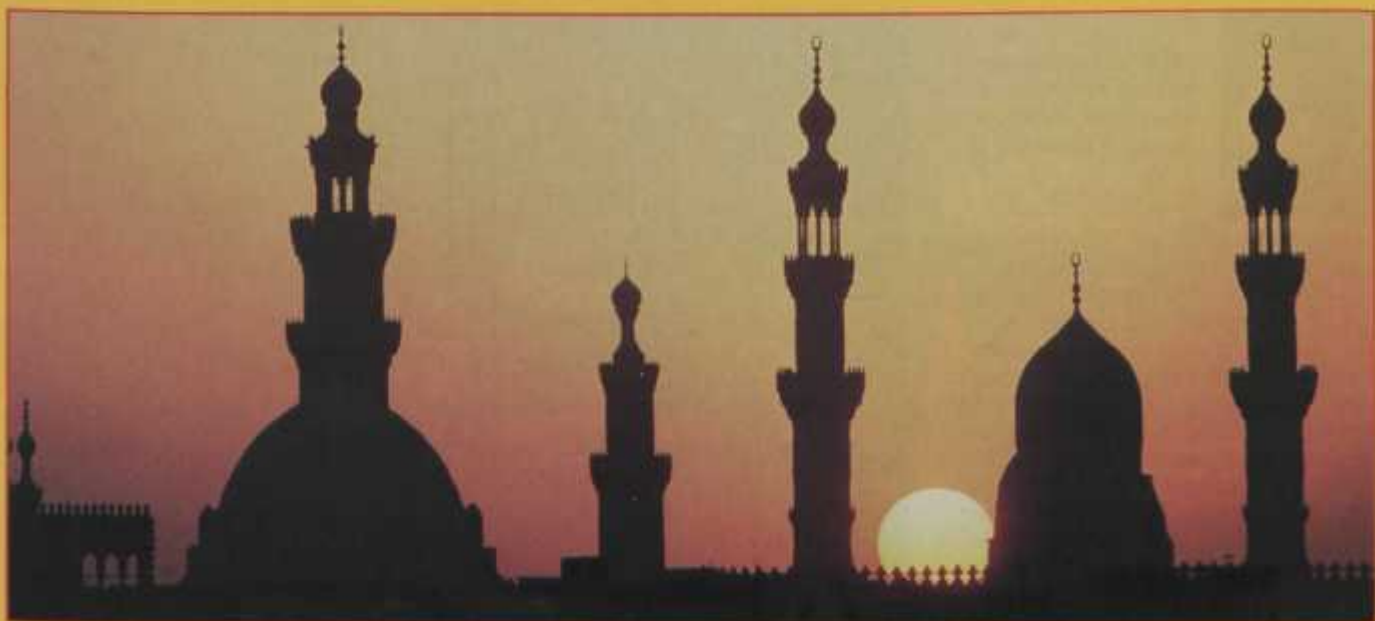
## How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.



# Egypt





# Economic Awakening

By Ali Loutfi



*Ali Loutfi is former minister of finance and prime minister of the Arab Republic of Egypt.*

**A** new age of economic independence and prosperity is dawning over the sands of Egypt.

Egyptian business people and their foreign business partners have begun tapping the abundant wellspring of natural and human resources with which this historic nation is blessed.

However, because of 26 years' involvement in war (1948-73), during which over 100 billion pounds were spent on the war effort, Egypt's economic development was totally neglected. As a result, the country suffers from imbalances in the basic components of its national economy.

But recovery is possible with the dedication of its people and with assistance from allied nations such as the United States.

Egypt's diverse resources and economic activities are unique among Middle Eastern countries.

While oil production is important to Egypt, growth of its gross national product is not tied exclusively to uncontrollable world energy prices—as are the GNPs of many of its Arab neighbors.

For example, Egypt has begun an aggressive effort to reclaim as many as 2 million acres of desert land for agricultural production.

This effort to develop reliable sources of water for irrigation contrasts starkly with inactivity in other nations in Africa and elsewhere in the developing world that suffer from periodic droughts.

Also, Egypt has the region's largest industrial base on which to build. It ranges



*This oil-drilling platform in the Gulf of Suez is just one of the Egyptian government's joint operations with foreign investors.*

PHOTO: CHRIS SORESENSEN—THE STOCK MARKET

from heavy industry, such as iron and steel production, to light manufacturing.

But Egypt's most important emerging resource is its more than 13 million working people.

Their diligence and hard work is legendary.

And their professional and vocational educations, high by developing-world standards and getting better annually, allow them to learn and deal with the latest industrial technologies.

For example, highly mechanized agricultural processes and computers are not strangers to Egyptians.

These resources are about to bloom in a greenhouse of stable government and political and social freedoms rarely found in the tumultuous Middle East.

## Long-Range Planning

In Egypt, resources are allocated and managed under well-thought-out development plans. The nation is embarking on the second five-year plan (1987-88/1991-92), which is part of a larger plan covering the 20 years from 1982/83 to 2001/2002.

Generally speaking, these long-range strategies for sound, orderly development are based on three fundamental goals:

- Advancing the principle of self-reli-

ance through continued economic development.

- Strengthening the nation's social and physical infrastructure.
- Adopting population location as a guide for development strategy.

The first five-year plan was aimed primarily at solving urgent problems. Most projects and programs addressed by the plan involved infrastructure replacement, renewal and rehabilitation.

This plan also brought about completion of projects that had been started as early as 1960. Over 80 percent of funds available for development was allocated to completing these programs.

In contrast, projects and programs under the second plan look more to the future and will direct funds toward current development.

## Privatization and Liberalization

Egypt's long-range plans are formulated under the philosophy that continued privatization and liberalization are essential to securing economic and human progress.

It is the government's belief that only human incentives can inspire imagination, enthusiasm and action.

However, cooperation between the public sector and the growing private sector remains important due to the fact that heavy industry is still managed by the public sector.

Our plans, however, are to encourage

*On the cover: Traditional calls to prayer from the minarets of Egypt's mosques are sometimes barely audible today. They often are drowned out by the sounds of economic growth made by machines used in industry and agriculture. Cover photos: Jim Olive—Uniphoto; Louis Fernandez—Black Star; Chris Sorensen—The Stock Market; Jim Scruggs—Uniphoto.*



*After decades of draining its coffers on wartime spending, Egypt has turned its attention to internal economic reconstruction. Its people and diverse resources make it a natural for success.*



PHOTO: BILL FOLEY—WOODFIN CAMP

the private sector—national, Arab and foreign—to invest substantially in that field. As for agriculture, it is entirely dominated by the private sector.

In fact, under the second five-year plan, 45 percent of all capital invested in industry will come from the private sector.

The low-income sector, which still constitutes the vast majority of Egypt's population, remains subsidized. This is an obligation emanating from the government's notion of social justice. Continued subsidies also are essential to continued political stability.

However, the subsidies are subject now, for the first time, to careful investigation aimed at ensuring that assistance is provided only to those who need it.

Within that framework of liberalization, our objectives are:

- Creating more favorable conditions for market-led economic development.
- Increasing the role of prices in allocating resources.
- Allowing a real increase in living standards of low-income groups through better job opportunities.

To those ends, the government is pursuing these policies:

*Port Said, at the entrance of the Suez Canal, is among the busiest in the world. Canal tolls make up one of Egypt's largest sources of revenue.*

**Liberalization of industry.** Prices are now playing significant roles in directing investment to industry.

Private investors are being allowed to price freely, except in cases of monopoly and industrial agreements. Public factories also are being allowed to adjust prices to world levels.

Incentives granted to private investors will continue with hopes that private participation will increase gradually.

Private management of public firms has proved successful in the hotel sector and may be tried in some industrial sectors.

**Liberalization of agriculture.** Gradually but steadily, prices of crops except cotton are being freed.

Cotton will continue to be supported to allow it to maintain its strong position in the international marketplace.

Prices of "inputs"—mainly fertilizers and seeds—are being freed, too, to allow them to reach international levels.

The private sector is being given first priority to invest in agri-services such as sorting, grading and storing of commodities, and production and distribution of inputs.

Land available for reclamation is increasingly being sold to private individuals, companies and cooperatives as well.

**Liberalization of energy.** Market prices play an important role in the rationalization of consumption. Progressive tariffs for households have been introduced.

Electricity prices charged to the commercial sector are being increased gradually in the light of international levels.

#### **Political Freedoms**

As for democracy, Egypt is uniquely stable among many developing countries. Widespread unrest and coups d'etat are unknown in Egypt.

This is because of democracy, which allows a multiparty system and provides respect for opinions other than those of the government.

Opposition parties share in the decision-making process in the People's Assembly, or parliament. There is also a free press. Views are expressed openly, wheth-





er for or against the government, without restriction and retribution.

Moreover, there is consensus among elements of society regarding major internal and external policies.

The government, the opposition and trade unions, among other sectors, favor the "open-door policy" aimed at attracting foreign investments and restoring regional peace and stability.

Moreover, Egyptians live in harmony, sharing the same values and cultural and social ideals.

As for the problem of fanaticism, it has no popular base in Egypt. The overwhelming majority of people are for Islam and its ideals—compassion, mercy and mutual support. Rigid and close-minded fanatics are rejected in absolute.

Yet fanatics are under careful surveillance by the government, which does not allow any outlaw actions on their part.

#### Rescheduling of Debts

Recently, it was necessary to seek rescheduling of Egypt's foreign debts. This will permit allocation of financial resources

during the next five years to the cause of development.

Egypt engaged the International Monetary Fund (IMF) in talks concerning the economic-reform program under way. The program is dealing with such things as the budget deficit, balance of payments, deficit exchange rate, trade, investment and interest rates.

After several months, we reached an agreement with the IMF in early 1987. Notably, the program for reform endorsed by the IMF suits exactly the requirements of enhancing progress while maintaining stability.

The agreement with the IMF paved the way for Egypt to go to the Paris Club last May and reach an agreement with creditors on the broad issue of rescheduling debts.

According to this agreement, talks are under way bilaterally with creditor countries. There is hope these talks will be finalized within the next few months.

#### Foreign Policies

Meanwhile, Egypt considers promoting

peace and stability regionally and internationally as a cornerstone of creating an atmosphere conducive to mutual understanding and prosperity.

To that end, Egypt spares no efforts in putting an end to regional tensions and conflicts.

Egypt is determined to maintain peace with Israel, not only out of respect for its international obligations, but also because peace is essential to devoting all resources and attention to social and economic development.

Egypt is diligently seeking to turn peace with Israel into a comprehensive settlement that is just and durable. Such a settlement would make stability and regional cooperation the tune of the day for all people and countries of the area.

To that end, we are hopeful that an international conference could be convened soon.

Throughout history, Egypt has been a land of virtue and prosperity. This will continue because Egyptians have the will and the resources, and they know the way toward progress. ■



## Amoco and Egypt: a 24-year success story



## Egypt's Black Gold

Even during the darkest days of the price slump that plagued oil-exporting nations in 1986, optimism within Egypt's Ministry of Petroleum did not dim.

Production of oil for export is vitally important to the Egyptian economy. It accounts for about half of total exports.

Yet, as you might expect of a people whose recorded history dates back more than 6,000 years, the government of Egypt took a long-term view of the energy situation.

And the energy industry's prognosis is excellent, Egyptian officials report.

This outlook is of much more than passing interest to American firms, many of which have been combing Egyptian sands in search of oil for decades.

Of the \$1.5 billion of U.S. direct investment in Egypt, more than \$1.3 billion is related to oil and gas exploration and production, according to the U.S. Department of Commerce.

Companies owned jointly by the Egyptian government and U.S. firms account for more than 70 percent of production.

Charles Carr, Jr., head of AMOCO Egypt Oil Company, is particularly bullish on his firm's future: "This is AMOCO's best overseas venture. There are problems, sure, but there is money to be made here."

This is AMOCO's 25th year in Egypt; only CONOCO has operated there longer. "Sometimes I wonder what we were doing here in the 1960s," when the government was nationalizing many companies and industries, Carr recently mused in his office in Maadi, a suburb of Cairo. "But now the economic climate is clearly good." He says that "President [Hosni] Mubarak is extremely sympathetic and supportive" to foreign investors.

Under the current Egyptian system, foreign companies are granted rights by the government to explore, at their own financial risk, clearly defined areas.

More than 20 such rights agreements were approved last year with many of the 14 foreign energy companies that operate in Egypt, says Salah Hafez, vice chairman of the Egyptian General Petroleum Corporation (EGPC). Hafez is the EGPC official who is responsible for agreements and exploration.

When a commercially viable find is made by a foreign company, an independent production company is formed by that firm and the EGPC. The parties are equally represented on the production

company's board of directors.

Profits accruing from the discovery are used by the production company to pay back exploration costs. Remaining profits are divided according to a pre-negotiated formula.

The Egyptian government is hoping such partnerships will lead to attainment of goals outlined in a five-year plan for 1987-88 through 1991-92:

- Produce 870,000 barrels of oil a day. "To sustain this level of production, more exploration is needed," says Hafez.

- Keep proven oil reserves at the current level of 10 to 12 years by offsetting annual production with new discoveries.

- Provide new incentives to natural-gas exploration and production. "We have accidentally discovered more than 1 trillion cubic feet of gas while looking for oil. In view of these finds, we now have energy companies bidding for gas-exploration rights here," says Hafez.

Helping Egypt meet its five-year petroleum goals will be a profitable undertaking for foreign firms for three reasons, say industry representatives:

Costs of lifting oil from the ground in Egypt are cheap by world standards. When prices and, consequently, profit margins are depressed, low lifting costs are essential to profitability.

Recent finds in the western desert augur large reserves. Exploration costs can be recovered fully and quickly when large discoveries are made.

The petroleum sector had traditionally been one of the most stable and best-managed sectors of the Egyptian economy.

Egyptians take great pride in their expertise in oil exploration and production. They have been engaged in these activities since 1886. AMOCO, for example, employs only 80 expatriates in Egypt.

"Generation after generation of Egyptians have worked in the oil fields learning first hand how to find new reserves. Discovering oil often results from a gut feeling," says Hafez, "not something you learn in geology school."

"Finding and lifting oil takes very special qualities. Americans are known to possess them; I like to think that Egyptians do, too."



بنك قناة السويس  
SUEZ CANAL BANK

Established in March 1978  
The largest private commercial Bank in Egypt and among the First 100 Banks operating in the Arab countries.

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L.E. 15 million (45% in US \$)

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- ☐ Suez Canal Authority (Pension Fund)
- ☐ Arab Contractors Co. (Pension Fund)
- ☐ Misr Insurance Co.
- ☐ more than 2000 individual shareholders

#### Providing:

- ☐ All commercial banking services
- ☐ Worldwide money transfer and foreign exchange services
- ☐ Project financing and participation for devel-

opment projects in domestic, foreign and joint ventures

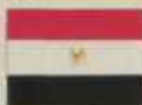
The Suez Canal Bank is considered an essential contributor to economic development and has participated in 34 projects covering all fields of economic activity

#### Branches:

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Cable address: BANCANAL CAIRO  
Telex: 22391-93852-21716-SCB-UN  
Telephone: 751215, 751066





## Modernizing A Nation

Who is widely regarded as "The Builder of Egypt?"

Think carefully and keep in mind that the recorded history of that land spans more than 60 centuries.

No, it isn't Cheops, builder of the Great Pyramid, or Cheophren, who is responsible for the Sphinx.

It isn't Ramses, the most prolific builder of pharaonic Egypt, among whose works is the great temple of Abu Simbel in Upper Egypt.

And it isn't one of the Greeks, Romans, Arabs or Europeans who ruled Egypt at one time or another.

"The Builder of Egypt" is the title bestowed upon The Arab Contractors, one of the world's largest contemporary construction companies.

Now-retired Chairman Osman Ahmed Osman and his successor, Mohamed Salah E. Hassaballa, founded what is now the Middle East's pre-eminent construction firm in 1954. Osman already had been a contractor for 14 years.

The Arab Contractors was nationalized in 1961 by President Gamal Abdel Nasser. But unlike most other new public-sector entities, its management team and style were allowed to remain intact.

That superior management has fostered the company's explosive growth.

"We maintain a very private-sector attitude as far as management is concerned," says Hassaballa.

"Each branch of the company, for example, never feels that it is part of the public sector, because each manager has full autonomy to design his budget, come up with incentive schemes for his employees and tackle the work before him with flexibility," he continues.

Most visible are the firm's successfully completed and ongoing projects in Cairo. For the last 25 years, Egypt's capital, home of 14 million of the nation's 51 million people, has been the scene of almost constant urban renewal and growth.

Most of the city's streets and bridges were built when the population was about 3 million. Housing was scarce, and much of that which did exist was inadequate by modern standards. Water and wastewater facilities were woefully inadequate. The city's airport was badly overcrowded.

The Arab Contractors changed that almost singlehandedly.

Everywhere you look in Cairo now there are modern boulevards, bridges, tunnels

*The Arab Contractors, one of the world's largest construction companies, built much of the Cairo underground, the Middle East's first comprehensive subway system.*

*Chairman Mohamed Salah E. Hassaballa says he is proudest not of the company's many visible accomplishments, but of its more than 60,000 employees.*



PHOTOS: BILL LYONS—BLACK STAR

and elevated roadways built by the all-purpose construction firm.

The city's legendary traffic jams have been reduced to tie-ups similar to those in any metropolitan areas in the United States and Western Europe.

People arriving in Cairo by air are greeted by a modern new terminal building. Once there, they can travel on the Middle East's first comprehensive subway system.

The firm also has built countless housing units, and wastewater from these and existing structures is disposed of through a sewage-treatment network—the world's largest single public-works project—built 70 percent by The Arab Contractors.

The firm's work in the capital also includes mosques, university buildings, hotels and virtually every other structure requiring steel and concrete.

Less visible is the company's extensive work in other parts of Upper and Lower Egypt, including reclamation of more than 100,000 acres of desert annually.

Also built recently are giant industrial facilities, such as the National Cement Factory at Assiut and power-generating stations at Salhia and Abou Sultan.

In all, the company accounted for more than 55 percent of construction in Egypt in 1987, 90 percent of which was obtained through competitive bidding against firms worldwide. Only 11 to 14 percent of work won in that and earlier years was subcontracted to other companies.

Still more invisible are the firm's many jobs in Abu Dabi, Jordan, Kuwait, Libya, Oman, Saudi Arabia, the Sudan and elsewhere in the region.

But it is obvious to anyone who spends



a few minutes talking with Hassaballa that he is proudest not of the company's many visible accomplishments, but of its more than 60,000 employees.

Most work for the firm from "cradle to grave."

Workers are hired young, trained and educated in construction and management skills, promoted according to their potential and looked after when they've retired through a lucrative pension and continuing health-care system.

The firm has built employee health-care and sporting facilities, and regularly fields soccer, rowing and other teams among the nation's strongest. In fact, the company's rowing team likely will represent Egypt in the upcoming Olympic games.

"This firm is a family," Hassaballa says proudly. "Human relations give you an extra 25 percent push."

"I try to get to know all my people," adds Hassaballa. "Then I try to stay close to them, be among them. And it works."

And, says Hassaballa with a wink, catering to the wants and needs of employees and giving employees incentives to work can produce great rewards for American firms, too.





# المقاولون العرب

## عثمان أحمد عثمان وشركاه



## ELGALAA TUNNEL PROJECT

*The Latest Achievement of The Arab Contractors*

The Elgalaa Tunnel Project was executed for the government of Egypt to help alleviate one of Cairo's worst traffic bottlenecks, in the suburb of Giza.

The tunnel is 16 meters wide and 600 meters long, with 150 meters of the below-ground roadway under cover.

Before tunnel construction could begin, a large number of primary and auxiliary wells had to be dug to control the flow of subterranean water from the nearby Nile River. And a large number of utilities had

to be shifted without reducing their efficiency for surrounding homes and businesses.

Construction itself entailed excavation of 60,000 cubic meters of earth, pouring of 30,000 cubic meters of concrete, and erection of 4,000 tons of steel—including 24 arches of up 25 meters in length and 8 meters in depth.

Despite the complexity of this massive project, all concrete work was done during the remarkably short period from March 1, 1985, to October 9, 1985.

### Design

Arab Consultants Engineers  
Maharram-Bakhoum

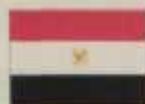
### Execution

The Arab Contractors  
Osman Ahmad Osman and Company

**ARAB CONTRACTORS**  
**OSMAN AHMED OSMAN & CO**

34 Adly St. Cairo - Cable : Osmason - Tel. 755455





*Agriculture abounds, even within sight of the pyramids at Giza, in the suburbs of Cairo.*



PHOTO: JOHN D. RESOLE—UNIPHOTO

## Ripening Development

During the last six years, the government of Egypt has taken significant steps to correct imbalances in the economy that favored industry, mining and other sectors over agriculture. These imbalances had been condemning the country to an unfavorable balance of payments.

At the outset of this reform program, Egypt's people depended on imported foodstuffs to feed about 30 million of its more than 50 million citizens, at the cost of over \$17.2 million a year.

Similarly, Egypt's agricultural deterioration meant that wheat production in 1980 was sufficient only for 90 days' consumption by the nation's people.

In 1981, President Hosni Mubarak declared, "Whoever cannot control his sources of food is not free."

He directed Egypt's attention to agriculture, an industry which at the time employed more than 37 percent of the population, provided 75 percent of industrial raw materials and 27 percent of Egypt's exports, and contributed 20 percent of national income.

As a first step toward restoring Egyptian agriculture to its proper importance, legislation was passed forbidding removal of topsoil from the Nile River and prohibiting manufacture of red bricks from scraped Nile silt.

Second, Mubarak restored agriculture to its rightful place in the framework of the five-year plan for 1982-83/1986-87.

Third, he stressed land reclamation and arable-land expansion, beginning with the Salhia drip-irrigation project, which reclaimed more than 56,000 acres in just seven months.

"Agriculture policy formerly took the form of production controls and direct commodity marketing, with restricted cultivation, price controls and forced delivery for some crops," says Youssef Wally, deputy prime minister and minister of agriculture and land reclamation.

"This system was counterproductive. The agricultural sector, 95 percent of which was privately held, was stripped of its productivity," Wally says.

When forced deliveries and fixed prices of certain crops ended, competition emerged among these commodities' cultivators, although optional deliveries for wheat remained.

Prices increased in favor of farmers. Wheat, for example, increased in price about 275 percent in six years.

Wally also points out that, after six years, Egypt is self-sufficient in some commodities such as beans, fruit and eggs, as well as nitrogenous fertilizers.

Mechanization of agriculture is essential to increased production; it has eased the labor gap in the countryside and has reduced waste.

The installation of more than 150 mechanization stations and cooperatives has led to significant productivity increases in agriculture.

During 1985-86, agriculture provided about 25 percent of national income, amounting to \$1.9 billion that year. That figure was up \$600 million from the 1980-81 figure of \$1.3 billion.

This income constitutes a vital source of foreign exchange, as agriculture provided roughly 27 percent of total exports in 1984.

Studies show that rural and urban consumption of all agricultural commodities except corn increased during the six-year period ending Dec. 31, 1986. Wheat crops have partially replaced corn. Per-capita consumption of wheat has risen from 395 pounds in 1981-82 to 411 pounds in 1986-87.

During the period 1980-86, the area of reclaimed land increased by 300,000 acres.

This newly arable land was distributed among land-reclamation companies and cooperatives.

Land-reclamation investments made by the Ministry of Agriculture and the General Land Reclamation Authority amounted to \$409.5 million in 1985-86, up from \$138 million in 1980-81.

The Ministry has provided short- and medium-term loans to farmers through the Principal Bank for Development and Agricultural Credit.

Such loans facilitate execution of projects in livestock and poultry productivity as well as in other areas.

Agriculture Minister Wally recently completed preparation of the framework for the Agricultural Plan for the current fiscal year (1987-88), which aims to increase agricultural production by \$193.6 million, or 3.5 percent, over the previous fiscal year.

This plan focuses on such things as increasing the productivity of reclaimed land and increasing commodities production still further.



# Personal Management

*Taxes going up, the stock market going down... maybe another piece of pie will help you feel better.*

## To Your Health

By Carol Dilks

### Restyling Your Life To Shed Extra Pounds

You try to avert your eyes, but you can't help catching a glimpse. The mirror reveals that another Christmas season of feasting has left you looking somewhat more like Santa than you would like.

Then comes the New Year's resolution about a diet.

Now is the right time to lose. But will just another diet really work?

No way, says Dr. Kelly D. Brownell of the University of Pennsylvania Medical School, in Philadelphia. Diets are only temporary shifts from normal eating habits, he says, and when a dieter goes back to previous eating habits, the weight comes back.

Brownell, a psychiatrist, contends that those who want to lose weight and keep it off must change not only their eating habits but also parts of their lifestyles. Such changes can be permanent if they are made one step at a time, he says.

Since 1975 he has been helping people do just that through a program he developed. It is called LEARN, which stands for lifestyle, exercise, attitudes, relationships and nutrition. "You need to integrate changes in all of these to get results that last," he says.

The LEARN approach, offered by hospitals and other health-care providers in programs of up to 16 weeks, is designed to help people not only shed extra pounds but also replace poor eating habits with healthier ones.

The habits the program tackles include how, what, when, where and why you eat; how much and how often you exercise; and your attitudes not only about food but about yourself.

One pervasive habit Brownell cites is so-called Olympic eating. At meals, overweight people tend to eat so quickly that they don't even enjoy their food. Moreover, they may keep on eating

*This couple perusing the dessert counter may soon join a traditional post-holiday activity: the battle of the bulge.*



PHOTO: STEVE CHEN—WESTLIGHT

even after they have consumed enough, because it takes about 20 minutes for the body's chemical message of fullness to reach the brain.

Brownell's advice is simple: Slow down. Learn to put down your fork between bites. Take a few minutes' break in the middle of the meal, a habit you can acquire gradually by starting with a 30-second pause. Try to be fully aware of your eating; don't read or watch TV while you do it.

Another problem is equating a craving with hunger. If you have just eaten a large meal but still want dessert, or if you drive by a Wendy's and get an urge to hit the brakes, you are wrestling with a psychological need, not hunger.

Brownell offers several ways to deal with cravings. "The distraction approach," he says, "involves ignoring the cravings. When a craving is about to engulf you, do something else. The craving will usually pass, generally within minutes or even seconds."

If distraction is not possible, try confrontation. Acknowledge the craving, and get the best of it.

Brownell suggests an inner mono-

logue along the lines of: "You nasty craving! You want me to stop for peanut butter cups when I'm not really hungry. I'll show you who's boss." (Do be sure such remarks are truly inner.)

Try to avoid situations that may cause a food craving. Don't drive past the Wendy's anymore, for example.

Exercise is important both for losing weight and for gaining a healthful lifestyle, Brownell says, and it too can be worked into your schedule gradually. A walking program can start with only 15 minutes a day.

Though such a small change won't give you an aerobic workout, it will increase the number of calories your body burns each day. When the body uses 3,500 calories more than it has been fed, it loses one pound. The basic activities of daily living burn calories. For example, a person weighing 175 pounds would use about 1,600 calories in eight hours of light office work, according to one estimate. If you are getting the program's suggested daily intake of 1,200 calories for women or 1,500 for men, the net result probably will be a loss.

Brownell emphasizes the importance of relationships to weight loss. People whose families are supportive without being pushy—such as those whose spouses walk with them after dinner or whose families agree to keep certain tempting foods out of the house—have an easier time changing their habits.

LEARN tries to instill habits of abundant self-monitoring and daily record-keeping. The program's 170-page manual contains work sheets for tracking the person's habits, exercise, food intake, weight loss and attitudes.

By reading the manual or taking part in a LEARN class, a person can learn how well he or she can modify each problem behavior.

Classes run for 8 to 16 weeks. They offer the LEARN program plus the expert guidance of nutritionists and exercise professionals, and they are now available through many health-maintenance organizations and at hospitals.

For information on classes or on how to obtain a manual, write: Kelly D. Brownell, Department of Psychiatry, University of Pennsylvania, 133 S. 36th Street, Philadelphia, Pa. 19104-3246. ■

Carol Dilks is a Philadelphia freelance writer.



## For Your Tax File

By Gerald W. Padwe, C.P.A.

### The "Kiddie Tax" Is No Kids' Stuff

Yet more evidence of the complications introduced by 1986's tax reform: Internal Revenue Service officials say that although thousands of wage earners will earn less than the minimum that would require them to file a 1987 tax return, the actual number of returns expected for 1987 should go up. Why? More returns will be required for minor children than ever.

A significant change wrought by the 1986 tax law was to tax most of the income of a child under age 14 at the parents' highest tax rate. Recent IRS regulations confirm that, contrary to some early reports on the law, all of the income a child receives—except wages for services actually rendered—is taxed at the parents' rate.

The income need not be on property or a bank account given to the child by a parent. Income from the bond Grandma gave the baby at birth, or the interest on the child's own earnings put aside in a savings account, is treated the same as the dividends on the stock Dad shifted to the child a couple of years ago to save taxes.

Don't forget U.S. savings bond interest if the child has elected to recognize the income each year rather than following the general rule of recognizing the whole amount when the bonds mature. (The interest accruing on savings bonds can be determined by using Form PD3501, available from the Department of the Treasury, Bureau of Public Debt, 999 E Street, N.W., Washington, D.C. 20239.)

Thus, you should be totaling your child's interest and dividend income to see if it meets the \$500 threshold for filing a return. If a return is due, you then have the pleasure of following the new rules. First, apply the child's normal tax rate for the first \$500 of unearned income; then apply the tax rates

*Like a homework assignment from the IRS, the tax on most income by children under 14 must be calculated at their parents' highest rates.*



PHOTO: MICHAEL REZA

applicable had you shown the remaining amounts as additional income on your own return.

The regulations also cover other areas of interest regarding the "kiddie tax." What if the parents file separate returns, and one is in a higher bracket than the other? The higher of the two brackets controls, and it becomes the child's rate on unearned income.

What if the parents are divorced? Then the custodial parent's rate is to be used. Suppose that parent, however, is now married to someone else and they file a joint return. No problem; the top joint-return bracket is used, even though it is determined by including income from a non-parent.

If the child's return is filed using what appears to be the parents' top rate for the year, and a subsequent IRS audit increases the parents' income—thus putting them in a higher bracket—must the child file an amended return based upon the higher bracket? Absolutely; and because the child's original return has now shown an underpayment of tax, interest will be due on the additional tax.

Finally, what if the child, having been 13 years old 364 days of the year, turns 14 on December 31? That's the good news—so long as the child is not "under 14" at the end of the tax year, the "kiddie tax" will not apply.

### Injury—And Insult

Here is a cautionary tale on the dangers of treating lightly IRS efforts to get its hands on taxes owed.

A recent Tax Court case discloses the plight of a self-employed attorney who, for reasons not discussed in the opinion, was delinquent in his federal tax obligations. After efforts to collect the liability proved futile, the IRS looked for assets that could be seized; it settled on the taxpayer's Keogh plan account, from which it collected \$22,000.

That was bad enough, you might think, but after collecting the \$22,000, IRS sent the taxpayer a notice of deficiency, claiming the seizure was actually a distribution of Keogh funds to the taxpayer followed by a payment from the taxpayer to IRS. Thus, there was a "distribution" of previously tax-deducted amounts to the attorney, and the \$22,000 was taxable as income in the year the government took it, to the tune of \$11,000 in additional taxes.

Further, because the distribution took place prior to the taxpayer's retirement, it was premature and was subject to a 10 percent penalty tax in addition to the regular tax. Finally, said the IRS, because the taxpayer failed to include the amount on his original return, he is subject to the negligence penalty.

The court held for the government on seizing the Keogh funds but refused to allow the two penalties. It had little trouble concluding that seizure by the IRS was a de facto distribution to the taxpayer followed by an assignment to the government. Since the distribution was from a plan, contributions to which are tax-deductible, the de facto payment is includable as income.

The 10 percent premature-distribution penalty, however, did not apply in this case, although the distribution was made before the taxpayer retired. Looking to congressional intent for the provision, the court concluded that the penalty tax was to prevent use of a retirement plan as a casual bank account, available for voluntary withdrawals. An IRS levy is anything but voluntary, and the 10 percent penalty was inappropriate. Nor was the taxpayer negligent in believing an asset seizure did not produce income.

Nonetheless, it was an expensive lesson for the taxpayer to discover that, in order to settle a tax liability for an earlier year, he incurred an additional \$11,000 tax for a subsequent year. Forewarned is still forearmed. ■



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.



## It's Your Money

By Ray Brady

### Forecasting From A Limb: No Tough Recession Ahead

If there is one thing you can count on at the beginning of every year—even more, perhaps, than death and taxes—it is a flood of columns and newspaper stories telling you exactly what's going to happen in the new year. Worried about the economy? The problem will be to avoid all the people who will tell you that it's going to boom, or bust, or just move sideways.

Or maybe stocks are your bag. Even after that huge stock-market decline that caught most of them asleep at the computer, there are still a lot of experts who will tell you the Dow Jones Industrial Average will wind up the coming year on the up side; and there are still others, with an opposing opinion, who will really fine-tune the projection for you—say, a Dow of 1306.27 by year-end.

That having been said, this column will now attempt its own analysis of what's likely to happen in the economy during 1988. It's not an easy task. For one thing, readers have a disconcerting habit of saving columns like this and mailing them back to the discomfited writer at year-end. For another, the full effects of the stock-market plunge are going to be unknowable for a while, though the final figures on Christmas shopping and other buying may give us a clue.

Even with that, however, let's go right out on a limb and say that the best guess is that there will not be a serious recession in 1988. It is still too early to tell—as of this writing—whether we will have one at all. But, definitely, it will not be a serious one.

But in view of the fact that so many economists have been wrong so many times in recent years, how can anyone make a projection like that?

Well, let's look at some of the factors this economy has going for it:

*Uncertainty dominates today's attitudes toward investing because even sophisticated investors recently have been whipsawed by either the stock or the bond markets.*



PHOTO: T. MICHAEL SEGA

That stock-market fall. It's true that consumers—and a lot of professional investors—lost \$1 trillion in the entire plunge. But much of that money was made during 1987, during the big rise in stock prices. Very little of it really came out of the market and into the real world.

Point Two: Most Americans were not in the stock market. For all the surveys showing how much stock they own, the fact is that shareholders are a small group.

Then there's the position of American corporations. They've spent the past two or three years downsizing—a hideous expression—which means corporations have pulled in, cut back and put themselves in a better position to resist any slowdown in business.

Now, all this does not mean that we may not be in for some confusing times in 1988. Far from it. There are signs that we are going to see the economy assume a slightly different form.

Year after year, lately, it's been consumer buying—cars, toasters, you name it—that has kept the economy moving forward. Lately, though, the consumer has been showing signs of being tapped out, of having reached the limit with his credit cards and his wallet. Not only that, the weak American dollar will be pushing up the price of many of the imported goods—the Toyo-

tas, the Sonys and so on—that John and Jane Doe love to buy. Consumer spending, of course, makes up two thirds of the economy, so a cutback in that kind of spending definitely will be felt.

Even as that is happening, however, that lower-priced dollar is having an effect on our trade balance. Slowly but surely our exports to foreign countries are picking up, and foreign companies—especially the Japanese auto companies—are having more and more trouble competing in this country. So industries like steel, aluminum and paper are beginning to benefit—either by finding it easier to sell abroad, or by finding that foreign competition is less of a noose around their necks in this country.

I've heard, in fact, of one heavy-equipment maker that is starting to cash in on the difference in currency values. One piece of its equipment used to sell in Germany for the equivalent of \$90,000; now, thanks to the fall in the dollar, that product is selling for the equivalent of \$50,000—a really competitive price.

So look for the economy to go through a transitional phase this year. You may read of a lot of businesses being hurt as the consumer slows down, but at the same time the lower dollar gradually will be benefiting other parts of the economy—and this gives us a good chance of avoiding a really tough recession.

The one question mark is capital spending. If companies decide to cut back in a big way on expansion, or on spending on modernization, that could have a very dangerous effect. So far, there are no signs of that happening, so keep your fingers crossed.

Still another question mark: The fact that 1988 is an election year. If you go by historical precedent, Washington will be doing everything in its power to keep us out of a recession—at least during 1988.

Finally, what does all this mean for the stock market? Probably the best advice an investor can get is to stay out of the market, at least for now. I deal with a lot of highly sophisticated professional investors, many of them with superb performance records. I have never seen so many of them as uncertain as they have been in recent weeks. Again and again, many of them have been whipsawed by either the stock or the bond markets. So, for now, stay on the sidelines—until we can get a clearer view of what lies ahead. **■**



Ray Brady is the business correspondent for CBS News.



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# How To Buy The Right PC

By Karen Berney

**A**re you in the market for your first personal computer? If so, you're in luck. Fierce competition for your business is prompting PC dealers to drop their prices almost daily. So it will pay you to shop for value, to compare types of computers and the features they offer.

There are three main classes of personal computers, but one type is generally recommended as best-suited for the first-time buyer of a PC for a small business. Many industry experts say you'd be wise to choose a second-generation PC, generically called an 80286—the model number of the microprocessor that powers it.

Bill Kirwin, a consultant with the Gartner Group, a market-research firm in Stamford, Conn., explains: "A small business, even more than a large company, should make a long-term investment in technology. On an 80286 PC you can run all existing software two to three times faster than on its predecessor, an IBM XT-class computer, and still be prepared to accept all the new technology coming down the pike."

Kirwin is referring to the fact that 80286 PCs will be able to run the next crop of business software being written for a new operating system known as OS/2, which now is scheduled to be released sometime early in 1988 by IBM Corporation.

The new programs, which will be far more versatile than current offerings, should start reaching the market within a year or two. By then, the XT-class computer will be obsolete, and an XT owner who wants to use OS/2 software will have to upgrade the computer's microprocessor with a faster, higher-performance chip.

In selecting an 80286 machine, you can choose IBM's new Personal System/2 line, or you can buy a computer that's either compatible with or identical to an old IBM AT.

If you crave the latest in power and features, such as snazzy graphics, you may want to look at IBM's Models 50 and 60, two highly praised PCs in the Personal System/2 product line, introduced last April. High performance is not cheap, however. The Model 50 lists for about \$3,600, and the Model 60, \$5,300.

For budget-minded businesses, the



ILLUSTRATION: MANSOON LEE—EUCALYPTUS TREE STUDIO

next best thing to a genuine IBM is an AT-compatible or an AT clone. The AT stands for "Advanced Technology," an IBM computer in which the company four years ago introduced the 80286 chip. Since then, many manufacturers have copied the AT, making their versions as faithful to IBM's original design as legally possible, often while adding features of their own. Meanwhile, IBM has stopped making ATs in a bid to attract buyers to its new Personal System/2 family.

In effect, compatibles and clones are alike. All run the thousands of programs designed for IBM PCs. But compatibles and clones are marketed differently.

Compatibles are name-brand products—such as Compaq, Tandy, AT&T, Kaypro—made with custom-engineered parts. They are sold as complete systems by dealers; they can't be ordered from the factory.

Clones, on the other hand, are built with parts that are interchangeable with those in an IBM AT computer. This makes shopping for a clone like sampling at a smorgasbord: There is a

*Selecting a personal computer from the "compatibles" and "clones" need not be costly or complicated.*

wide array of vendors whose wares can be mixed and matched.

Nevertheless, experts say your PC should come out of the box equipped with the following:

**640 Kilobytes of RAM.** RAM, for random-access memory, comprises the computer's main memory and is used to store applications software temporarily. The MS-DOS operating system, which is expected to coexist with its successor, OS/2, for some time, can handle a maximum of 640K of RAM; many top-selling software packages come close to that limit.

**20-Megabyte Hard-Disk Drive.** A hard-disk drive permits fast access to programs stored in one location. This eliminates the need to swap floppy disks frequently as you switch from working with a word processor, for instance, to a spreadsheet.

Presently, the 5¼-inch, 20-megabyte hard disk, which holds the equivalent of 10,000 pages and sells for \$300 to \$500, is the industry standard. Another, more expensive option is the new 3½-inch hard-disk drive. These pocket-size, high-capacity disks are beginning to supplant 5¼-inch disks and are recommended for first-time buyers.

**1.2-Megabyte Floppy Drive.** Your PC needs at least one floppy drive to make back-up copies of files and programs stored on the hard disk. A 1.2-megabyte disk can handle three times as much data as the more common 360K disk. Like hard drives, floppies come in various sizes, with Teac, Seagate and Miniscribe among the leading suppliers.

**A Clock Speed in the Range of 8 to 12 Megahertz.** This is the key specification of the microprocessor. The primary benefits of increased speed come in calculating long spreadsheets and sorting large databases. Some software programs run only at certain speeds, so make certain that the computer's clock can be switched to accommodate the various speeds of different programs.

**Monochrome Graphics-Adapter Board and Monitor.** To display text and graphics, you'll need an adapter board, which should add no more than \$150 to the cost of the system. Prices for monochrome monitors range from \$100 to \$1,000, depending on the quality of resolution.

In addition, experts recommend that



## MANAGING YOUR BUSINESS

## How To Buy The Right PC

the PC have enough power to support future expansion and enough open slots for attachments such as a floppy drive, a modem and a printer. AT clones generally come with at least five available slots.

If you decide to buy an AT clone, you have three options: a mail-order company, a clone dealer or a retailer.

The allure of clones is their affordability. Low-overhead mail-order firms can offer low prices. You can pick up an AT clone for under \$2,000 and obtain name-brand accessories at deep discounts.

But bargain hunting is not for everyone, cautions Edwin Rutsch, author of *The IBM AT Clone Buyer's Guide* and

head of the IBM XT Clone User Group of San Francisco. (This useful book is available from Modular Information Systems, 431 Ashbury Street, San Francisco, Calif. 94117; 415-552-8648.)

The disadvantage in mail-order buying, Rutsch notes, is the absence of technical support. That may not be a problem in installing an accessory such as a printer, which requires little training. But it may prove a problem in learning how to use sophisticated software. The uninitiated, Rutsch writes, "should buy a computer from a local vendor, so he has easy access to service, support, and the opportunity to develop a personal relationship with a dealer."

If you order by mail, order from a reputable company. PC's Limited, in Austin, Tex., the biggest and most successful mail-order company, has set the standard: One year's worth of warranties and on-site repair, a 30-day money-back guarantee and technical support available through toll-free telephone calls.

Clone dealers often are wholesalers in small shops stacked high with boxes of imported computer parts. Some offer little support beyond a 90-day warranty and a do-it-yourself instruction book. Others might provide as much help as do full-service retailers.

Many local retailers that carry IBM and AT-compatibles also stock AT clones. Retailers charge the most but also offer the convenience and security of one-stop shopping.

Whichever type of dealer you choose, Rutsch says, you should follow a few guidelines.

- Check the length of the warranty and how it is honored. For example, if a part breaks down, do you get a replacement part directly, or does the entire computer have to go back to the shop for repairs?

- Make sure you get along with the dealer. Don't buy if you feel pressured; there are many vendors to choose from.

- Ask for the names and phone numbers of previous customers who bought the same machine.

- See if you can purchase the clone in subassemblies. By putting it together yourself, you'll increase your understanding of computers. This will pay off later when you need to expand or troubleshoot the system.

- Look for a Federal Communications Commission approval sticker.

There is no reason to be suspicious of all clones. But if you insist on the peace of mind some find with IBM, you still may be able to buy an authentic AT. Direct Technology, in Binghamton, N.Y., is one of many used-computer dealers doing a brisk business in refurbished IBM PCs. A retread AT running at 8MHz and equipped with 512K of RAM, a 20-megabyte hard disk and 1.2-megabyte floppy drive sells for \$2,495, carries a 90-day warranty and qualifies for IBM service.


And it appears that for many buyers, there's just nothing like the real thing: Direct Technology reports it has a long waiting list of people desperately seeking an IBM AT. ■

## Comparison Of Selected AT Compatibles And Clones

	Memory	Hard-Disk Storage	Floppy-Disk Storage	Clock Speed	List Price <sup>1</sup>
<b>Compatibles</b>					
Compaq Deskpro 286 Model 20	640K <sup>2</sup>	20Mb <sup>3</sup>	1.2Mb	12MHz <sup>4</sup>	\$3,999
ComputerLand BC286	512K	65Mb	360K	10MHz	\$3,194
AT&T 6300 Plus	512K	20Mb	1.2Mb	6MHz	\$2,340
Radio Shack Tandy 3000	640K	20Mb	1.2Mb	12MHz	\$2,899
Hewlett-Packard Vectra PC Model 45	640K	20Mb	1.2Mb	8MHz	\$3,990
Kaypro 286	1Mb	40Mb	1.2Mb	12MHz	\$2,995
Zenith 286	512K	20Mb	1.2Mb	8MHz	\$2,999
<b>Clones</b>					
PC's Limited 286/8	640K	20Mb	1.2Mb	8MHz	\$1,799/D <sup>5</sup>
Wells American A Star II	512K	20Mb	1.2Mb	6-14MHz	\$1,795/D <sup>5</sup>
Computer Mail Order	512K	20Mb	1.2Mb	8MHz	\$1,299/D <sup>5</sup>
ME Micro Express ME 286	640K	20Mb	1.2Mb	8MHz	\$1,350/D <sup>5</sup>
Leading Edge D2	640K	30Mb	1.2Mb	6-10MHz	\$1,995
Epson Equity 3	640K	40Mb	1.2Mb	6-12MHz	\$3,295
Mitsubishi MP 286	640K	20Mb	1.2Mb	8MHz	\$2,495

<sup>1</sup>This table shows the baseline configuration of these vendors' systems; some include options such as a keyboard, a monitor and a calendar clock in the base price. <sup>2</sup>K=kilobyte; 1 kilobyte=1/2 page of text. <sup>3</sup>Mb=megabyte; 1 megabyte=500 pages of text. <sup>4</sup>MHz=megahertz. <sup>5</sup>D=direct mail only.

Sources: National Association of Computer Dealers, Computer Blue Book, Winter 1987/88; Personal Computing, April, 1987, pp. 147-176; and manufacturers.

 To order reprints of this article, see page 38.



# Making It

*What's shiny and beautiful—and profitable? These entrepreneurs found very different answers.*

## Transparent Treasures

Tom and Linda Riley, owners of a Cleveland gallery specializing in modern glass art, wanted to expand their customer base by opening a gallery in Columbus. But they didn't want to move and were leery of hiring a gallery manager who wouldn't be as committed to the business as they. Their solution: Keep the business in the family by putting daughter Sherrie Hawk in charge.

"We risked my career and their capital," says Hawk, who gave up her job as a certified public accountant to run the Art Investments Glass Gallery. "I'd always loved art, studied it, but I knew I wasn't good enough to support myself as an artist, so I became an accountant. After five years of that, I was ready to get out."

Modern glass was initially a hobby for Sherrie's father, Tom Riley, an endocrinologist who had collected antique glass and pottery. "We noticed that museums were accumulating contemporary glass, and we felt modern glass offered superior art content at a relatively low cost," Tom Riley recalls. "So we started learning about it and buying it for ourselves."

Others had the same idea. Although the market for modern glass was virtually nonexistent 20 years ago, it has recently become hot stuff. We're not talking Tiffany or cameo here—that belongs to the antique-glass world. Modern glass art includes perfume bottles, glass flowers and trees, and sculptures.

The Rileys' timing was exquisite; they got in just before the prices started to climb. Today, a simple paperweight by a name artist, such as Harvey Middleton, commands about \$23,000. The Rileys say they couldn't afford to start a glass-art gallery from scratch at today's prices.

After purchasing about \$30,000 in glass art over several years, the Rileys in 1982 opened a gallery in their hometown of Akron. "We didn't even know how to display pieces," says Linda Riley, who operated the gallery with part-time help from her husband. "We'd go to art shows and put things on black

*Sherrie Hawk has good reason to smile. Sales at the glass-art gallery she manages for her parents in Columbus, Ohio, have covered expenses from its first month.*



PHOTO: T. MICHAEL KEZA

tablecloths and bookshelves, while everyone else used attractive pedestals and white backgrounds."

Even so, the Rileys prospered, and last September they moved the gallery to a 3,500-square-foot location in the Murray Hill section of Cleveland, a 45-minute drive from Akron. "It's a good area for art shops, and most of our customers were from Cleveland anyway," says Linda Riley.

That expansion followed the opening of the Columbus gallery by nine months—an opening the Rileys initially were skeptical about. "Sherrie kept saying there was this great area in Columbus for a gallery, and we kept saying, 'Sure, Sherrie, sure,'" Linda Riley recalls.

The "great area" was the Short North, an eclectic mix of art galleries, clothing stores and restaurants midway between downtown Columbus and Ohio State University. The Rileys leased a 1,800-square-foot space, and the gallery's sales have covered expenses from the first month.

The Rileys' criteria for purchasing art: "We buy things that we'd like to

have in our home," says Tom Riley.

The Rileys participate in about a dozen national modern-glass shows a year and regularly visit many of the 30-plus artists with whom they do business.

Profits from both locations go back into the business—the Rileys won't finance expansion by borrowing. They also differ from some gallery owners in their practice of purchasing works outright, rather than taking pieces on consignment. Their strategies pay off. The galleries have grown to a business with inventory worth about \$500,000 and projected sales of \$400,000 in 1988.

Hawk, who collects a base salary of \$1,000 a month plus a percentage of sales, says there's been little friction with her parents over how she operates the Columbus gallery. "As a daughter, I'm used to taking advice from my dad," she says. "I don't think we have any of the type of tension or violent disagreements you might get with a father-son relationship."

Good thing, too. In her business, an argument featuring people throwing glass objects would be costly.

—Joseph Anthony



## Making It

## PEOPLE

*Auto dealer Martin Swig sits in front of his San Francisco Autocenter, where he sells 15 different makes under one roof, including the luxurious Rolls-Royce.*



PHOTO: ROBERT HOLMSTROM

## One-Stop Car Shopping

In the summer of 1983, San Francisco auto czar Martin Swig was looking for relief from the escalating costs of leasing property along Van Ness Avenue, the city's "Auto Row," where he owned five dealerships. He and his partner of 15 years, Edouard Richard, decided to put them all under one roof, in a former discount department store on less valuable land outside the downtown area.

What did their competitors on Auto Row think? "Word was that we would be broke in three months" because customers wouldn't follow them away from Auto Row, Swig recalls.

How wrong they were. The San Francisco Autocenter—among the nation's first "megadealerships"—sold 7,000 new cars and trucks in 1986, up from 5,900 the year before. (On Van Ness, Swig sold 3,000 in his best year.) Swig says annual gross revenues now are "in the \$90 million to \$100 million range," about three times higher than revenues on Van Ness. A 40-year lease and more than twice as much space (370,000 square feet) for roughly the same cost as the multiple lots on Van Ness made the move all the sweeter.

The Autocenter, in a one-story building that Swig renovated with the help of architect Andrew Drozdawicz, is an example of the changes that are sweeping automobile retailing. Although dealerships spread over acres of prime

metropolitan land can still be found, industry observers say new ones on that scale are not likely to be started. The cost of the real estate has simply become too prohibitive, they say.

Swig sees the megadealership as the "prototype" for dealerships that will prosper in the increasingly competitive auto-sales field. With worldwide car and truck production exceeding demand every year, he says, dealers are engaged in a "slugfest for market share." Successful ones find ways to economize in moving their products to market.

Besides the real-estate cost savings, Swig points to the marketing advantages inherent in putting several auto dealerships under one roof. Since the Autocenter is ballyhooed as one dealership with many different makes, ads attract more traffic, Swig says.

And the Autocenter caters to a variety of wallets and tastes. Swig carries cars and trucks made by four American manufacturers (Chrysler, Plymouth, Oldsmobile and GMC trucks), five Japanese companies (Toyota, Nissan, Mazda, Isuzu and Suzuki) and six European makers (Rolls-Royce, Bentley, Range Rover, Sterling, Alpha Romeo and Saab). Dominant among the models on display are the popular Japanese imports, but Rolls-Royces attract special attention at the back of the showroom.

The average inventory is approximately 1,200 cars, says Swig, with 300 at the Autocenter and the other 900 about four blocks away.

Still another advantage to multiple dealerships under one roof is adminis-

trative efficiency, says Swig. "We're almost like an extended family," he says. Managers work as a team in a central place rather than perform duplicate tasks at separate locations. Inventory and bookkeeping records are all fed into a central computer system.

The Autocenter benefits consumers, too, says Swig. Customers can shop for different makes without driving around to different dealerships. And Swig tries to eliminate any sense of high-pressure selling. To that end, the Autocenter's showroom has a 9,000-square-foot "free zone," a customer section off-limits to the sales staff. It is a tastefully decorated, maroon-carpeted area where shoppers can relax and mull over decisions without pressure.

Swig began selling cars when he was "a kid in college." He later became sales manager for a Mercedes Benz dealership. Then, in the 1960s, when "the Japanese were accelerating" their presence in the auto market, Swig bought his first dealership, selling Datsuns (now Nissans). His success there led him eventually to ownership of the five Auto Row lots.

Swig's sales show that there are few problems selling such a variety of cars under one roof. But when pressed to name at least one disadvantage, he says: "It's pretty tough to get different manufacturers together and find agreement on the type of advertising and the tenor of your presentation. It takes a coherent philosophy and strategy to make this work."

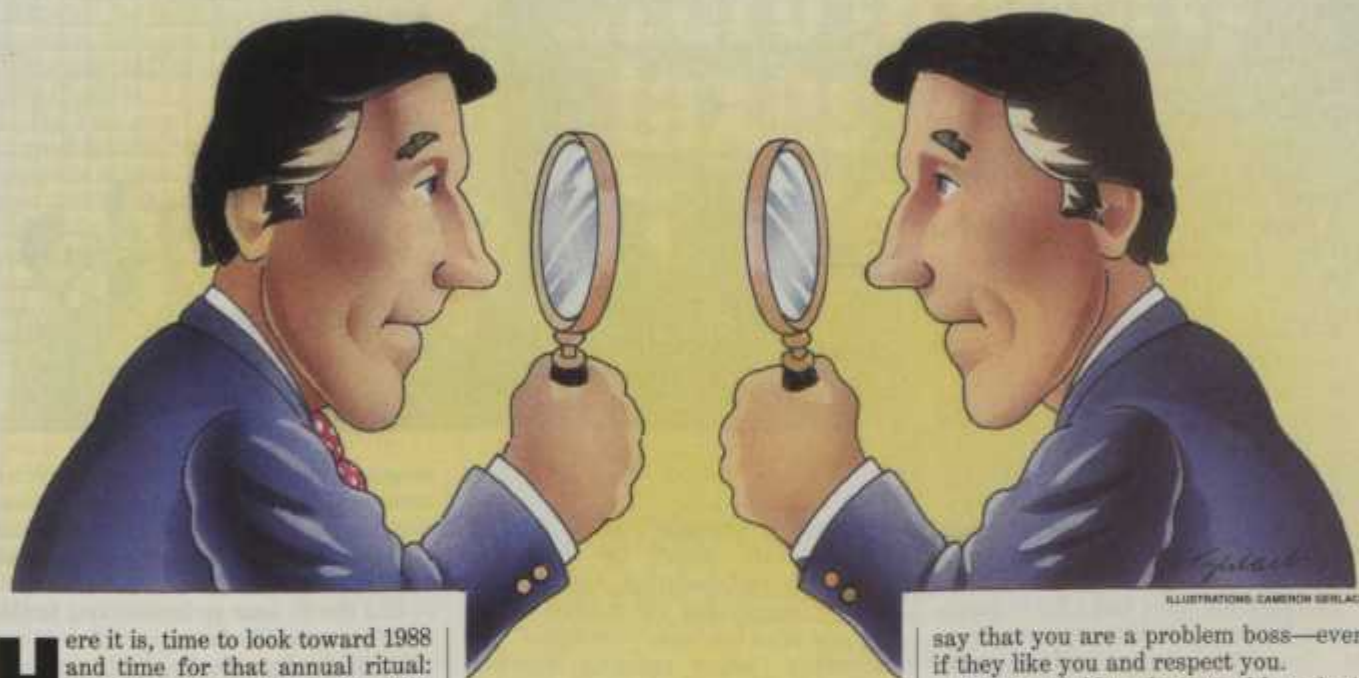
—Steven B. Kaufman and  
Melinda W. Nahmias



# Resolved: I'll Be A Better Boss

By Mardy Grothe and Peter Wylie

*How would your employees rate you as a boss? Even if they like you, they might say you are a problem.*



ILLUSTRATIONS: CAMERON GELLACHY

**H**ere it is, time to look toward 1988 and time for that annual ritual: New Year's resolutions. But why dredge up those old, stale ones, like dropping 20 pounds and doing regular exercise? Why not try something new? This year why not resolve to be a better boss?

"Hah!" you say. "Why not get my employees to resolve to be better workers? Especially some of the *problem* employees I have!"

Most bosses think they have at least a few problem employees—and probably an additional bunch who are not outright problems but who could be doing a lot better than they are. Maybe you have a technically gifted employee who is rough around the edges with customers or co-workers. Or a worker who started off great but lost his motivation. Or an office staff person who is always feeding the rumor mill and stirring up trouble.

According to bosses, problem employees are all over the place.

*Mardy Grothe and Peter Wylie are psychologists and partners in Performance Improvement Associates, a management consulting firm in Boston and Washington. Their latest book, Problem Bosses: Who They Are and How To Deal with Them (Fawcett), was issued recently in paperback.*

Employees, however, see a different picture. When we ask a group how many now have, or have had, a problem boss, almost every hand goes up. And then above the nervous titter, we hear a smart aleck shout, "Is there any other kind?"

After all, who *hasn't* had a problem boss? Maybe it was a conflict-avoider who closed his eyes to all staff problems. Or someone with a short fuse who reamed out her employees in front of co-workers or customers. Or a guy who *never* gave employees feedback on their performances or someone who always said, "You're doing fine," and nothing more. Or a nit-picker who was more concerned about the color of the memo pads than about planning and setting goals.

What would your employees say about you? Well, if we could talk frankly with them, chances are they would

say that you are a problem boss—even if they like you and respect you.

Shocking? Most bosses either don't see themselves as problem bosses, or they minimize how much of a problem they are to their employees. This happens for three reasons:

**1. Self-deception.** We tend to see ourselves in a more positive light than the one that actually shines on us. As bosses, it means we give ourselves much higher marks as managers of people than our employees do. (Bosses routinely give themselves As and Bs on managing people, while their employees give them Cs and Ds.)

**2. Externalizing.** When something goes wrong, we usually lay blame for the problem on other people. We put white hats on ourselves and black hats on all those bad guys out there. Bosses tend to blame employees, and employees blame bosses. The truth lies somewhere between.

**3. Insulation from feedback.** Employees insulate their bosses from honest, straightforward feedback. They don't tell bosses what they really think of them. They accentuate the good stuff and rarely mention the bad. And bosses end up thinking, "Hey, I must be doing pretty well—I'm not hearing any major complaints."

Of course, employees don't tell bosses the truth because they can get



## Resolved: I'll Be A Better Boss

into big trouble for it. Years ago, movie mogul Samuel Goldwyn put his finger on the problem when he said: "I don't want any yes-men around me. I want people to tell me the truth, even if it costs them their jobs!"

Even though it may be a little hard for you to accept that you are a problem boss, think about it for a moment. Becoming a boss is not akin to becoming a professional athlete or a nuclear scientist, where ability and desire are essential. People become bosses for other reasons:

- They have outstanding technical skills.
- They work harder than their peers.
- They're loyal employees who have "good attitudes."
- They're good followers.
- They know how to play politics with company higher-ups.
- They have advanced degrees.
- They form their own companies.
- They're related in some way (son, daughter, spouse, in-law, friend, lover) to the big boss.

You may not have had a lot of preparation for your job. Have you ever been to "bossing" school? How many courses have you taken or how many books have you read on managing people?

Even after acknowledging that your training may not have prepared you for a position at the top, you still may not see yourself as a problem boss. But consider a New Year's resolution to become a more effective boss anyway. Your employees will benefit. And so will you.

First you have to decide where you are lacking as a boss. It is tough to progress on a resolution if you are not sure what to work on. Not to worry.

Let's imagine what you would do if your New Year's resolution were something else. Say, to become a better tennis player.

You would probably start by analyzing your game. You have an idea of your strengths and weaknesses, but you are smart enough to know the limitations of an armchair analysis. So, as a second step, you might decide to get some feedback from your tennis cronies. They probably know your game better than you do.

If you're really a serious player, though, you'll end up going to a professional who will diagnose what you really need to work on.

You can try a similar approach with

*How do you measure up as a boss? Before you can improve your performance, you must first pinpoint your strengths and weaknesses. Three*

*ways to do that: Analyze yourself; consult your employees; and consult a professional.*



your be-a-better-boss goal by taking these measures:

**1. Analyze yourself.** This is a good place to start, despite the limitations (remember self-deception and externalizing?). Simply get out a sheet of paper, and label one side "strengths" and the other "areas needing improvement." Jot down as many thoughts and ideas under each column as you can. Try to recall what people have said about you over the years. Work hard to come up with things on the negative side of the list.

**2. Consult your employees.** The most valuable information will come from

people most familiar with your strengths and weaknesses—your employees. Start by asking them to read this article. Then sit them down, one at a time, and say:

"I'd like to hear your reactions to the article, especially how you think it applies to me. Specifically, I'd like you to talk about some of the ways I'm a 'problem boss' to you. Tell me what you think I'm doing ineffectively and how I'm contributing to any problems I'm having with you or other employees."

"Finally, tell me what I could do, as your boss, to make your job here more satisfying and less frustrating. I want

## Are You On The Right TRAC With Your Employees?

A relationship is a bit like a human body: Each has vital signs you can monitor to see how healthy—or unhealthy—it is.

While a body has a pulse and blood pressure, a relationship's vital signs are less tangible but just as important. They are trust, respect, affection and confidence. Or TRAC for short.

High TRAC ratings are signs of a healthy, productive, satisfying relationship; low TRAC ratings mean the opposite.

Try this exercise to find out how satisfying and productive a relationship you have with each of your employees:

Think about the employees who report to you, and rate how you feel about them on TRAC. That is, on a scale of 0 to 10 for each of the four vital signs, how do you feel about each person?

When you finish TRAC-rating employees, estimate how each of them would rate you on TRAC. (A word of caution: Most bosses overestimate how their employees feel about them, some by a wide margin.)

Finally, find someone you trust who knows you and your employees well. Ask this person to estimate how your employees would TRAC-rate you.



you to be frank. I promise that nothing you say will come back to haunt you. And I mean that!"

No matter how great a boss you think you are, employees are going to be suspicious. After all, have you ever done anything like this before? So be prepared for them to start off *very* tentatively, until you show that you mean what you say about their speaking to you frankly.

The best proof you can offer is to be a good listener. After you solicit an employee's opinions, look him or her in the eye and be as attentive as you can (no eye-rolling or grimacing when you hear something you disagree with). Every now and then, nod your head to send the message that you're listening and that you want to hear more.

Don't interrupt. In fact, you should not talk much at all, except to say, "Go on, keep talking," or, "This is good for me to hear, so please continue."

When the employee finishes, try to summarize, or "read back," what was said. Simply say, "Well, I heard you say several things. You started off by saying . . . And second, you said . . . And third, . . ." And so on. Doing this is solid evidence you were listening. It can also prompt employees to build on your summary.

**3. Consult a professional.** If you have the resources and the motivation, you can also bring in a management consultant to interview you and then your staff. If the interviews are confidential and the consultant is a good one, this process will yield some very helpful information. You don't need an expensive consultant to do this. Any good listener will do. One fellow we know had a local school counselor interview his staff. The important thing is to get as much candid, straightforward information as possible.

**D**oing all this can yield a lot of information. In fact, you will probably have to confront another problem—what to work on first. The important thing is to listen to what your employees say about your performance as a boss and to begin correcting the weaker aspects of your game. If you take those steps, you will be a much better boss by the end of the year. You'll probably have a much happier new year, too. And isn't that what New Year's resolutions are all about? **■**



To order reprints of this article, see page 38.

# LOUISIANA GUARANTEES

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And you shouldn't need a Masters of Engineering to keep it in proper running order.

But these days, if you don't know how to re-wire your Coronas or replace your exposure lamp, chances are your copier's down again.

Now rather than accept copier breakdowns as inevitable, you have a choice. You can pick up the phone and call your service technician for the umpteenth time.

Or call your local Ricoh representative for the very first time.

Before he'll show you the technology behind our latest copiers, he'll inform you of the facts that stand in front of them.

Like the fact that we're one of the largest manufacturers of copiers in the world. And the fact that our engineers work to make certain that when you're on deadline, your copier's not on downtime.

Then he'll be glad to show you the specifics. Like our FT7060. A machine so sophisticated, it can turn itself on, edit your originals, automatically change print tone, and turn itself off. Which doesn't mean you need

to memorize hundreds of technical commands to program it. All you have to do is consult the animated Guidance Display System. And let your index finger do the rest.

Finally, he'll discuss a little something called a commitment from a company that flatly refuses to accept copier breakdowns as inevitable. A company with one of the most extensive service networks we hope you never use. And no.

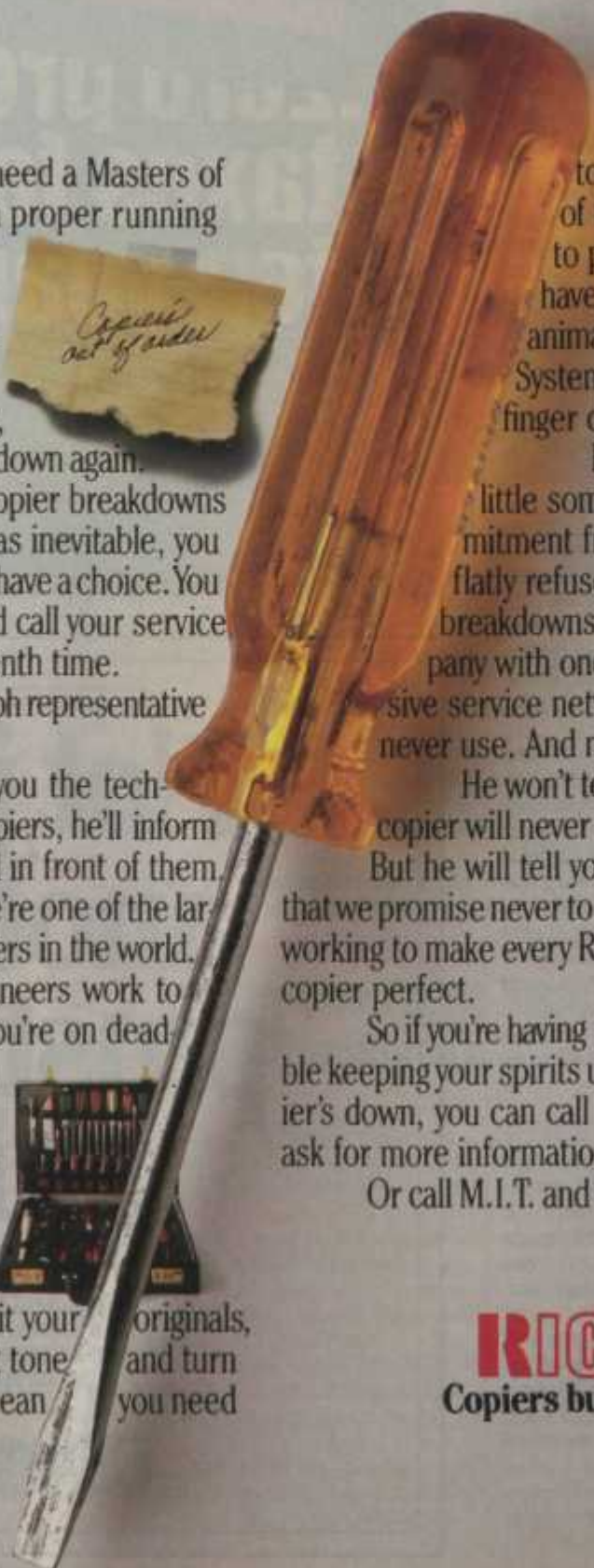
He won't tell you that every Ricoh copier will never stop working perfectly. But he will tell you

that we promise never to stop working to make every Ricoh copier perfect.

So if you're having trouble keeping your spirits up every time your copier's down, you can call 1-800-63-RICOH and ask for more information.

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Copiers built to work.







# JAPAN

SPECIAL ADVERTISING SECTION





# Working Toward Cooperation



PHOTO © J. HEATON—UNIPHOTO

**C**oncurrent events last fall in the world's financial centers indisputably demonstrated one thing:

Governments of nations, which are economically more interdependent than ever, must cooperate in order to spare the world from a serious recession.

New York, Tokyo, Hong Kong, Bonn, Paris and London are many hours apart, even by the fastest jet aircraft, but recent economic tremors were felt almost simultaneously in the stock markets in those financial capitals and elsewhere.

"Like it or not, we're moving into an era where there are no boundaries in financial transactions," says Kohmei Kinoshita, general manager of the Planning Department of Yamaichi Securities.

Japan is often criticized for its "over-presence" in this field, says Kinoshita, but this major presence is inevitable due to several factors:

- Japan has become a capital exporter with accumulated trade surpluses and a



PHOTO LOU JONES—UNIPHOTO

*High-speed Japanese trains are monitored by computers.*

high savings rate. It has to export and recycle its money in other markets.

- Japan is in a time zone between New York and the European financial markets, facilitating 24-hour financial transactions. Though Hong Kong and Singapore are in generally the same time zones, they are much smaller financial markets, Kinoshita notes.

Problems arise because each financial market has a different way of doing business, and these differences are not always understood. For example, Japanese companies are accused of ignoring market rates and of underwriting issues at rates much lower than those of the market. But this is because Japanese companies tend to emphasize long-term rather than immediate interests, he says.

A company would be prepared to accept less attractive conditions if it believes this could lead to more satisfactory relations in the future with the same client. He

explains that Japan is trying to remove barriers that still exist in the financial markets.

Among these moves is increasing the membership on the Tokyo Stock Exchange by 22 seats by the end of 1987. More than half those new seats likely will go to foreign brokerage firms.

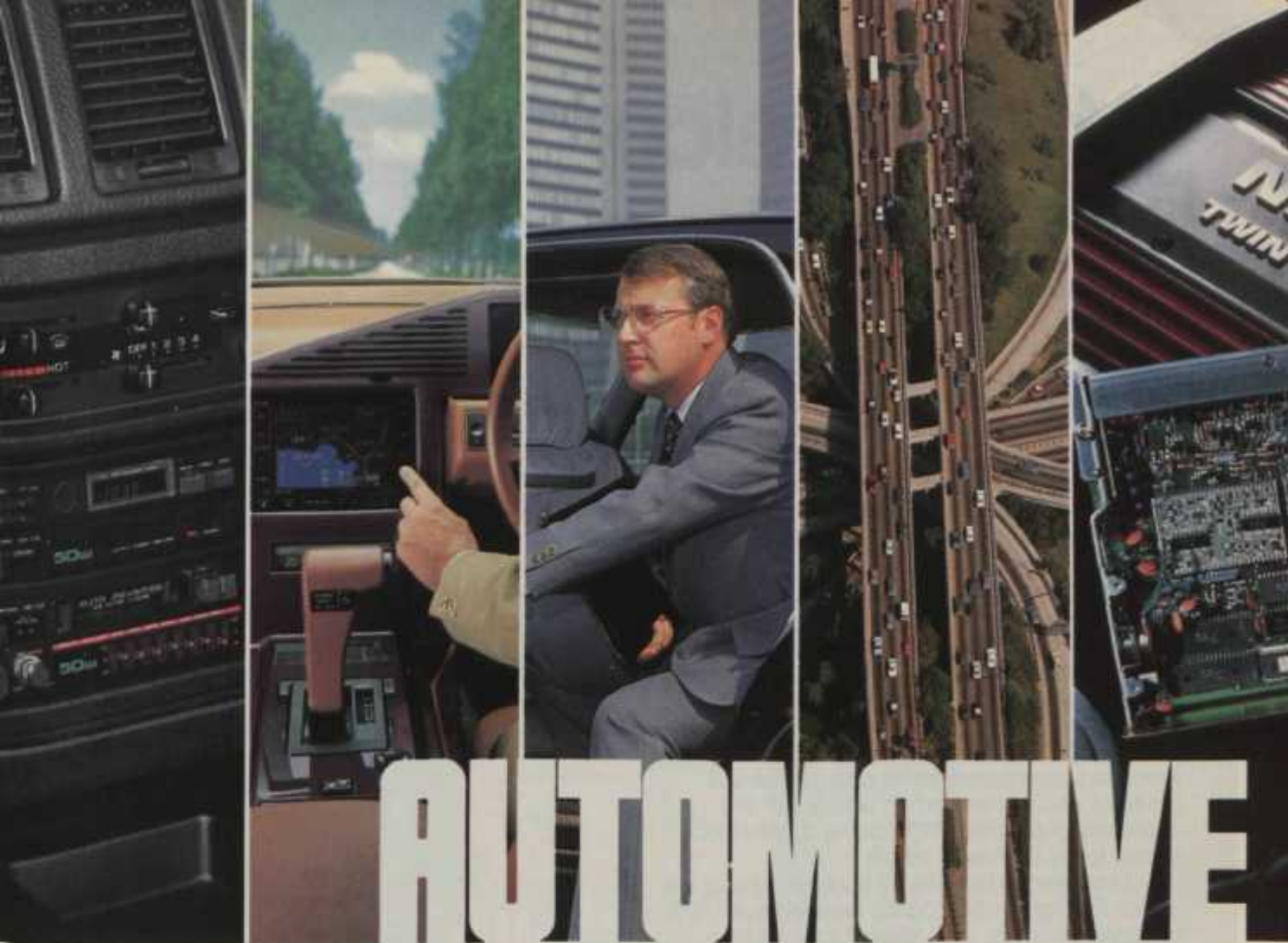
Perhaps part of the friction between Japan and the United States arises from differences in approach, the Yamaichi official suggests. In the 1984 yen-dollar meetings between the two countries, which initiated liberalization of the financial markets in Japan, the Japanese promised to open the country's markets "step by step." The United States urged Japan to take "long strides."

Also, foreigners have the impression that Japan always has to be bullied before it concedes. But it is not that simple, explains Kinoshita. What may seem like a slow process is the procedure of reaching consensus in Japan. But in the long run, once everyone has agreed to a decision, everything moves more quickly, because there are no more opponents, he explains.

Japan has become an economic power with the world's biggest trade surplus. At the same time, it has become the biggest creditor nation and the largest capital exporter. Therefore, from the standpoint of international cooperation, Japan has the responsibility to reduce its trade surplus over the long term so as not to disrupt the

*On the cover: As seen in this montage, the Japan of today has many diverse faces—a Japanese woman in traditional garb; bustling Chou Avenue in the Ginza district of Tokyo; the Tokyo Stock Exchange, among the largest in the world; and a modern industrial facility. Cover photos: Jim Brandenburg; Ken Straiton—The Stock Market; Lou Jones—Uniphoto.*





# AUTOMOTIVE

*Hitachi's wide-ranging automotive technologies include car audio, the Satellite Drive Information System featured on Nissan's CUE-X concept car and a microcomputer engine control system.*

Automobiles should be more than safe, comfortable machines. They should also be able to communicate with the world around them.

Recent advances in car electronics technology have been remarkable. They've not only improved basic functions such as engine control, they're now being seen in man-machine interfaces providing more comfort and operating ease, and even in communications with the surrounding world. Down the road there are things even more exciting.

**Hitachi's scientists** and engineers are at work on a Multi Information System using a color thin filter transistor LCD to display operating information, road maps and a navigational system using these maps. With this system a driver could obtain a variety of driving information simply by touching the display screen. Eventually, he'll be able to issue verbal commands to, for instance, regulate the temperature within his car. Hitachi electronics and semiconductor technology can also bring free communication with the outside and determine a car's exact location through use of Global Positioning System satellites.

Hitachi has also developed a highly acclaimed hot wire air flow sensor used in engine management. It helps achieve the diametrically opposed goals of maximum power and fuel economy. And we've created many other superior products for driving control, suspension control, air conditioning and audio.

**We link technology** to human needs; and believe that our special knowledge will create new, highly sophisticated functions that are also easy to operate. Our goal in automotive electronics — and medicine, energy and consumer electronics as well — is to create and put into practice innovations that will improve the quality of life the world around.



## HITACHI

Hitachi, Ltd. Tokyo, Japan



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He doesn't know much about trade balances yet. But just look around: see all the American health-care products, the clothing, the foods he and his family are consuming? There's more and more every year.

And there are things he'll need and want as he gets older, too. We'll be supplying them when he's ready. Because as Japanese general trading companies or *sogo shosha*, it's our job to locate all those products, develop markets for them in his neighborhood, and keep the flow going and growing. Working closely with American companies, we've proven that U.S. products *can* sell well when tailored for the Japanese consumer. We're doing a better job of that today than ever before.

Last year, in fact, the 17 *sogo shosha* of the Japan Foreign Trade Council handled over 75% of Japan's imports for a total of \$105.5 billion.

How are we encouraging Japan's imports on such a scale? By knowing just what consumers want, at every stage of their lives. For example, right now some of our member companies have dozens of Japanese mothers, wives accompanying their husbands overseas, voluntarily searching U.S. stores for new products we can buy and export to Japan.

It could be food, fashions or household goods or machinery and high-tech systems. But no matter what it is or where it comes from, Hiroshi, his family and his society will go on getting the very best our world has to offer.

That's a promise from our family, the *sogo shosha* of Japan.

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*Workers assemble typewriters at Brother plant in Japan.*

world order, Vice Finance Minister Toyoo Gyohten said recently in Tokyo.

Japan has done its part to expand domestic demand and open its markets, but Gyohten concedes that there are many areas that can be liberalized further. Japan must "keep trying" even if that means tackling difficult domestic problems in agriculture and distribution, he says.

At the same time, he appeals to the United States to make efforts too. "We hope the United States understands that just because its currency has been international, this doesn't mean it can continue to pile up deficits. This will hurt its economy and further aggravate the trade imbalance," he says.

Before World War II, each country had been very protectionist. But after the war, everyone tried to get away from protectionism by creating bodies such as the General Agreement on Tariffs and Trade (GATT) and international institutions such as the World Bank and the International Monetary Fund to provide necessary funds to countries in need of help, according to Jiro Yamana, deputy president of Daiwa Securities.



PHOTO: LOU JONES—UNIPHOTO

Protectionism is never good for the world economy. The United States accuses Japan of being a closed market, and in some instances it is. Japan should open its doors a bit more, but it also operates under a different system from that in the United States, Yamana explains.

For example, he says, not allowing more foreigners into the Tokyo Stock Exchange has been used as an example of

Japan's closed-door policy. However, there is an actual problem of lack of floor space.

Another root of the market-liberalization problem lies in the difference between the systems in Japan and the United States: The U.S. stock market has individual memberships, whereas the Japanese stock-exchange system goes by corporate membership. The membership dues are exorbitant, which limits the number of members. To try to change the system would be difficult, he adds.

The Japanese financial market is moving toward liberalization, but a lot still needs to be done, the deputy president concedes. Restrictions have been lifted on 20-year bonds and shorter-term bonds, but 10-year bonds still need to be liberalized. Still, it was only about 10 years ago that the New York Stock Exchange opened to foreigners, and it was done not so much for the foreigners' benefit as to help expand the market, Yamana says.

While it's true that protectionist sentiment still exists in some political circles in Washington, representatives of various U.S. state governments are eschewing

## Learning From Your Neighbor

Tokyo and Washington are separated by nearly 6,800 miles and numerous social and business customs, but you'd never know it from visiting Junichi Aoki.

Discussing global business affairs with the senior representative of Hitachi, Ltd., is like chatting with a friendly and learned neighbor.

You leave Aoki's downtown Washington office wondering why Eastern and Western government officials and business people often find it difficult to resolve their practical and philosophical differences.

No, having worked in both nations' capitals hasn't provided Aoki with solutions for all the myriad problems facing Japan, the United States and other countries. He isn't sure what, if any, impact last fall's downturn on Wall Street will have on Congress' efforts to trim the U.S. budget deficit. He says the final shape of the trade bill now before a U.S. congressional conference committee still is "quite unpredictable." He can only speculate how weak the dollar will become in relation to the yen.

But talking over coffee with the cordial and open Aoki leaves you with the reassuring feeling that honesty and good will, not

retoric and retaliation, can and will lead to constructive solutions to international economic conflicts.

Hitachi, too, is optimistic about the long-range health of the U.S. economy and the U.S.-Japan trade relationship. In the short term, however, some sacrifice by Americans is inevitable, says Aoki.

But Americans won't be sacrificing alone, he points out.

Higher prices for Japanese goods in the United States—a result of the decreased value of the dollar—are causing pain already on the other side of the Pacific Ocean, Aoki says. And, he adds, Japanese companies are being challenged increasingly at home by South Korean and other Pacific rim nations whose currencies are tied to the dollar.

Hitachi attempts to soften fluctuations in currency-exchange rates by manufacturing or assembling products such as home appliances, automotive parts, telecommunications equipment and computer peripherals in areas where it sells those products. The company currently has U.S. facilities in Compton, Calif.; Harrodsburg, Ky.; Norman, Okla.; and Atlanta.

And this Japanese manufacturing giant strives to use American-made components at its U.S. operations. "Japanese companies are flexible and reasonable," Aoki says. "When we can find reliable U.S. suppliers, we use them."

It wasn't easy for Japanese firms to penetrate the U.S. market, he reminds American business people who would like to sell goods or services in Japan. There are real and perceived barriers on both sides of the Pacific, he says, "but I'm confident that if you continue to try, you can overcome."

However, Aoki expresses a rare frown when he talks about foreign business people who use alleged unfair trade barriers as excuses for their own failures to research the Japanese marketplace adequately before venturing into it.

In fact, his parting advice about succeeding in Japan concerns the importance of homework.

Japanese and American business people differ in a number of important ways—in everything from hiring and firing styles to methods of personnel evaluation—Aoki points out. Hitachi and its Japanese competitors have learned that when they operate in the United States, they must study and then do what Americans do, he says. Americans in Japan could learn much from this lesson.



*Downtown Tokyo is a colorful place at night.*

protectionism now and aggressively courting Japan for investments, according to Marubeni Corporation's Hideya Taida, general manager for America and Oceania.

Japan's dependency on the U.S. market is as high as 38 percent, so in order to avert protectionism and the risk of being shut out of the United States, many Japanese companies are already preparing to shift their production facilities to America, he says.

Furthermore, given the current trend of the yen's steady appreciation against the dollar, Japanese companies, large and small, cannot afford *not* to do so any more. In fact, manufacturing companies such as Honda Motors already plan to export their American-made products to Japan, a trend which could increase American exports, Taida adds.

He also sees, as do a lot of other Japanese, the problem of the U.S.-Japan trade imbalance arising from the structural differences between the two countries: The United States became more dependent on imports when the dollar was strong. And now, even with the weaker dollar, America finds it has to import many goods.

Japan, on the other hand, has always been import-dependent because it has few natural resources.

With its trade surplus growing, and the U.S. trade deficit at record levels, Japan has "no choice" but to cooperate and buy more from the United States, while still keeping its trade surplus from getting too big. And in this Marubeni is doing its part, the executive says. Purchases of American grain, paper, wood and other raw materials by Japanese trading companies have increased 40 percent recently, Taida says.

**F**or Sanyo Electric Company, the United States is the major market, accounting for 30 percent of its sales, according to Director Takao Tominaga. The company already manufactures many of its consumer products in the United States.

One subsidiary, the Sanyo Manufacturing Corporation, established in Arkansas in 1976, has 2,000 employees. It produces about 1 million color television sets a year for the American market, most of them containing locally made parts.

Another U.S. subsidiary, Sanyo Laser Products of Richmond, Ind., will shortly be producing audio compact discs.

Tominaga believes establishing U.S. operations such as these helps to ease trade frictions with the United States, because they decrease Sanyo's overall exports from Japan. Under the guidance of the



PHOTO: KEN STRATTON—THE STOCK MARKET

Ministry of International Trade and Industry, Sanyo is also "trying very hard" to use American-made semiconductors.

NEC Corporation is a company with deep roots in the United States. It has been manufacturing in America for the past 20 years, before protectionism became a political issue, says Shozo Shimizu, NEC's executive vice president. The

company has nine U.S. production outlets, employing more than 6,000 people. Five are factories for telecommunications equipment; one makes computer-information systems; two manufacture electronics goods; and the most recent plant, in Atlanta, is involved in home electronics.

"People keep asking us why we started manufacturing in the United States so

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Kikkoman Corporation

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Production facilities: Japan, USA and Singapore; Subsidiaries: Hawaii, Canada, West Germany, Hong Kong and Australia.



*Chugai Pharmaceutical Company is a world leader.*



PHOTO: KEN STRATTON—THE STOCK MARKET

many years ago. It's not that we predicted trade friction would get worse, but because we don't believe you do things overnight—it takes 10 years to get business started," Shimizu explains. "It's an old philosophy of our company, whose history goes back to 1899, to manufacture in the market where we sell."

Products made and sold in the United

States account for 30 percent of NEC's American sales. "We hope to raise this ratio to about 50 percent in the next two or three years," he says. To do that, the company is actively expanding its existing facilities in the United States.

Japanese companies have 640 facilities in the United States with 160,000 workers employed in the manufacturing field and

about 100,000 to 120,000 working in non-manufacturing areas, according to Tomoharu Washio, assistant director for the Americas Division at the Japan External Trade Organization (JETRO) in Tokyo.

Most operations in the United States tend to be wholly owned subsidiaries of Japanese companies, but there will be more joint ventures in the future because that's what the Ministry of International Trade and Industry is encouraging, Washio says.

There is also a shift from the so-called "screwdriver assembly" plants to those using local parts. But the JETRO official points to some of the problems Japanese companies have in relying solely on locally made parts.

Many companies complain that parts are not made to their specifications, that there often are not sufficient supplies when needed and that American suppliers insist on selling in large lots, which creates storage problems, he says.

**S**till, Kikkoman Corporation has been making almost all of its main product—soy sauce—in the United States, says Managing Director Yuzaburo Mogi. Its manufacturing plant, established in 1973 in Wisconsin, and its sales network employ 425 American workers. Shoyu (soy sauce) consumption in the United States is naturally much lower than in Japan, but for that very reason Kikkoman expects to see a 6 to 7 percent increase in consumption and a 10 percent increase in annual sales.

If Japan were to open its markets, asks Mogi, "would Americans succeed in selling their products?" As he sees it, Americans must study more about Japanese companies and how they do business in Japan. "When we do business in the United States, we have a lot of problems, but we study the system."

As Kikkoman's Mogi sees it, the trade problem has been aggravated by people who don't know Japan. "They read reports in the press or hear someone saying something, and they start criticizing Japan," he says.

The same thing applies on Japan's side. "The Japanese media say Japan is being bullied by the Americans, so people there start believing America is not fair. It's like a children's fight," Mogi explains.

The situation could be improved if each of the two countries starts explaining to its own people the causes of the friction, Kikkoman's managing director suggests. Both sides need to make the effort, he says: "Japan should more boldly open its markets, but Americans should also study the market better." ■

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# Where I Stand

*Results of this monthly poll are forwarded to top government officials in the White House and Congress.*

## 1. Will The Economy Continue To Expand?

The U.S. economy has been expanding for 62 months, a peacetime record. But some business people remain pessimistic about the future in view of the 508-point drop in the Dow Jones Industrial Average on October 19, Congress' continued reluctance to reduce the budget

deficit through deep spending cuts and the continuing large trade deficit. The optimists say, however, that the basic economy remains strong, stock prices are headed back up, progress is being made on deficit reduction and recent drops in the exchange rate of the dollar will bring the trade deficit down. Do you believe the economy will continue expanding throughout 1988?

## 2. Will Consumers Continue To Spend?

Economic expansion over the past five years has been fueled by vigorous consumer spending. After a decade of decline, median family income increased sharply throughout the expansion. The consumer price index has increased only 18 percent during the period. And

interest rates are far lower now than they were when the recovery began. It is argued on the other hand that consumer spending will slow as individuals pay the debts they have incurred and that the stock market fall has triggered recession fears that will cause further retrenchment. Do you believe your customers will curtail spending significantly during 1988?

## 3. Will Washington Become Less Of A Problem?

It took a 508-point drop in the stock market to force Congress and the executive branch into a joint effort to reduce the federal deficit. But concern that mistakes made in Washington could undermine the economy has not spread to congressional sponsors of or-

ganized labor's legislative agenda. A higher minimum wage and mandated health insurance are two of the proposals on it. Critics say many small businesses could not survive the higher operating costs that would result. Advocates of the legislation argue that costs would not be as high as the business people say. Should Congress reject the labor agenda?

## Verdicts On November Poll

*Here is how readers responded to the questions in the November issue.*

	Yes	No	Undecided
Should Congress intensify scrutiny of defense contractors?	33%	56%	11%
Should a comparable-worth study be conducted?	18%	77%	5%
Should Congress expand the Davis-Bacon Act?	9%	84%	7%



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# A Post-Reform Tax Review

By Thomas P. Brock

**M**any—perhaps most—small businesses are in for a surprise when they prepare their 1987 returns now that changes under the 1986 tax-reform act have gone into effect.

This is particularly true if the owners and managers of those businesses have not looked beyond the highly touted statements that the law substantially reduces tax rates on individual and corporate income.

The tax-reform law does that. But Congress' top priority in writing the tax law was revenue neutrality—total tax collections could not be increased or decreased. Reductions in one area were offset by increases in others.

Individual tax rates have been reduced significantly. Some of this reduction is offset by eliminating previously allowed deductions. Another part is offset by a number of revenue-enhancing provisions that mostly apply to businesses. The remainder of the individual tax-rate reductions is offset by \$120 billion in higher corporate taxes over five years.

Thus, the typical individual is better off under the new tax law, and the typical corporation is worse off. But small-business owners—whether their businesses are incorporated or not—will be trapped by the revenue enhancers.

This is the big surprise in the new law. It will result in small-business owners being the only broad group of individuals who will pay significantly higher taxes under the reform act.

Here's how it happens:

## Corporate Tax Rates

The typical effect of tax reform on small businesses operating as regular corporations is to provide a small reduction in tax rates, which is more than offset by the loss of the investment tax credit.

The Tax Reform Act was billed as a law that would lower corporate tax rates by 26 percent—from a top rate of 46 percent to 34 percent. But only cor-



ILLUSTRATION: DAVID CHEN

porations with taxable incomes of more than \$1,405,000 will enjoy the benefit of the full 26 percent reduction, and the savings for other small businesses will be considerably smaller (see chart).

A firm with \$25,000 in taxable income gets no relief through the cut in corporate rates, and one with \$50,000 in income gets a 9 percent reduction. At \$200,000, the decrease is 15 percent.

Even that relief can be offset by the repeal of the investment tax credit, which is retroactive to Jan. 1, 1986. And many small businesses will not fare well in that exchange because they will receive smaller tax reductions to make up for the loss of the investment credit.

Before it was repealed, the investment credit allowed a direct reduction in taxes owed of up to 10 percent of the cost of all types of machinery, equipment and vehicles.

While the investment-credit loss may affect service firms less than those in manufacturing, service companies will feel the impact when they cannot claim credits for purchases of equipment such as computers, office furniture and delivery trucks.

An incorporated enterprise with less than \$25,000 taxable income faces an immediate tax increase through any loss of the investment tax credit.

The effect is almost as bad for small firms with larger incomes. A corporation earning \$50,000 a year has to lose the investment credit on only \$7,500 of equipment purchases to offset the full effect of the tax-rate reduction. A corporation earning \$300,000 of pre-tax income is worse off under the new law if it typically acquires more than \$175,000 of new equipment each year—a relatively modest amount.

Thus, the loss of the investment credit will probably outweigh the small savings from lower tax rates for most small corporations.

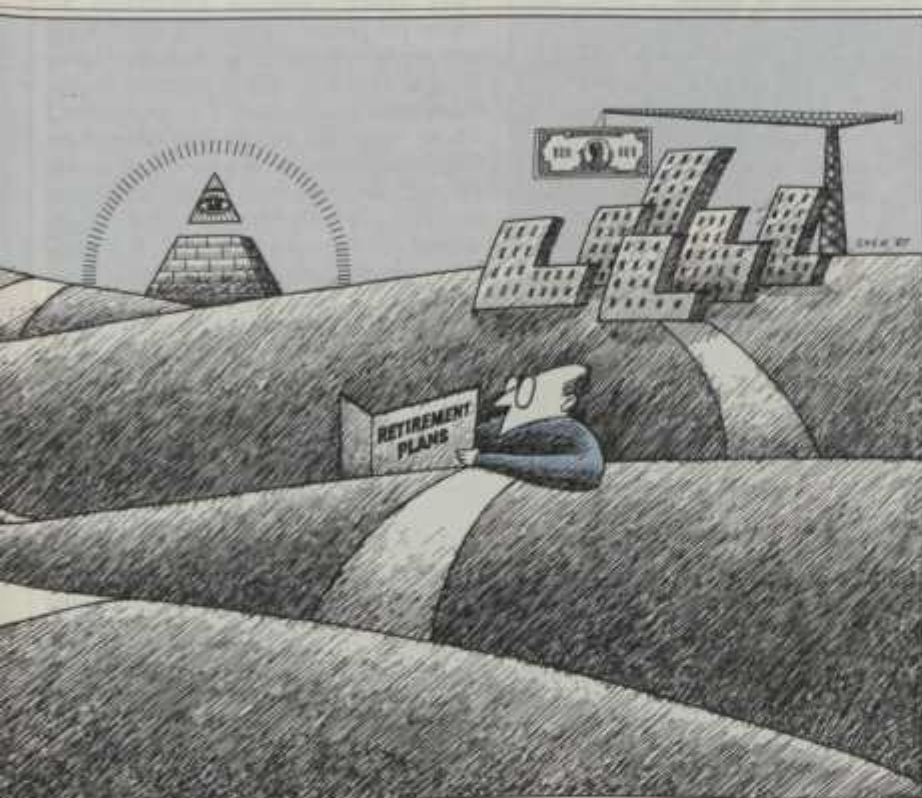
## Individual Tax Rates

To reduce rates while not reducing tax collections, Congress increased the income on which the lower rates would apply. The new law will have only two regular tax brackets in 1988—compared with up to 15 previously—with rates of 15 and 28 percent. But the law also establishes a third and higher

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*Unheralded tax hikes and recordkeeping complexities lie ahead for small businesses when they calculate what they owe Uncle Sam under the new rates and rules of the tax-reform law.*



bracket of 33 percent for unmarried taxpayers earning between \$43,150 and \$89,560, and for married couples reporting joint incomes between \$71,900 and \$149,250. In addition, the upper limit of these brackets is expanded by about \$11,000 for each exemption claimed.

The amount of money subject to the lower rates was increased through steps such as eliminating deductions for sales taxes and for most nonbusiness interest, as well as curtailing deductions for medical expenses, investment expenses and the fees paid for preparation of tax returns.

These reduced deductions were partially offset by an increase in the personal exemption for those not in the higher tax brackets, but for most small-business owners there will be a significant net loss of deductions.

That loss will combine with the elimination of favorable treatment on long-term capital gains to push up many tax bills in spite of rate reductions. The maximum tax rate on long-term capital gains is going from 20 percent to as much as 33 percent in 1988 (or even 49½ percent in some cases; details be-

low) as a result of the decision to treat such gains as ordinary income.

#### The 49.5 Percent Tax Rate

This rate affects active owners of rental properties who have incomes of more than \$100,000 from sources other than the rentals. Among the taxpayers in this category are small-business people who own buildings that they lease to their companies. The new law limits rental losses to a maximum of \$25,000. That write-off starts to phase out for taxpayers with \$100,000 of nonrental income and is eliminated at \$150,000.

A taxpayer with \$100,000 of income and a \$25,000 rental loss receives full advantage of the loss and pays a tax of \$17,288. A taxpayer with \$150,000 of income and a \$25,000 rental loss will not be able to write off any of that loss currently and will pay \$42,038. The increased tax on the additional \$50,000 of income will be \$24,750, or 49½ percent.

#### Increases in Taxable Business Income

The tax liabilities of small-business people will be increased by numerous changes in the way they calculate busi-

ness income. And these changes will further complicate tax preparation, sometimes requiring differing calculations for financial statements and tax returns.

Here is a "dirty dozen" of the most significant changes:

- **Depreciation changes.** The amount of time used for calculating the depreciation of most assets has been lengthened. While the law allows somewhat greater write-offs at the front end, the net effect will still be clearly negative. Other factors are special adjustments—which mainly will affect small businesses—for large purchases late in the year and for purchases of luxury cars, which the law defines as those costing more than \$11,000. The law increases from \$5,000 to \$10,000 the amount of depreciable property that can be written off directly if asset purchases are less than \$200,000, but that is a modest concession.

- **Inventory-capitalization rules.** The new law requires addition of significant amounts of overhead expenses, such as administrative, personnel, purchasing and warehousing costs, in computing the value of inventories. Adding these costs to inventories will mean higher taxable income. These rules go beyond anything required by the Securities and Exchange Commission or accounting standards. The change is simply a hidden tax increase and will be especially burdensome to small businesses that will have to keep two sets of inventory records in many cases.

- **Meals and entertainment.** Practically all businesses will feel the impact of the tax-reform provision that limits deductions for meals and entertainment to 80 percent of their costs; such costs had been fully deductible. Moreover, businesses will find recordkeeping required by this change to be outrageously complicated.

- **Alternative minimum tax (AMT).** This can be accurately characterized as a whole new tax system. Many actions will now have to be weighed first in the light of their effect on regular taxes and then in the light of their effect on AMT. Because the exemption is small (\$40,000 or less) and the rate is relatively high (20 percent for corporations and 21 percent for individuals), the AMT



## A Post-Reform Tax Review

will affect many more small businesses than in the past, and a lot of them will be caught by surprise.

AMT has extensive complications. Among others, the benefits of accelerated depreciation are added back to income. This could mean keeping three or more sets of depreciation records. In many transactions, the full amount of gains from installment sales is recognized as income in the year of the sale.

● **Elimination of bad-debt reserves.** Tax and accounting rules have recognized for years that most businesses have accounts receivable that will not be collected and that these amounts can be estimated with reasonable accuracy. Suddenly, for tax purposes, bad debts can no longer be deducted until the specific uncollectible accounts can be identified. This change is simply another hidden tax increase.

● **Retirement plans.** The new law increases significantly the rate at which employees must become vested in plan assets, and it reduces the benefits that can be paid to higher-paid employees. As a result, costs will be higher, and more small businesses will be forced to curtail or abandon their plans.

● **Construction accounting.** Many construction contractors are caught in a tax-law provision aimed at aerospace companies. Contractors handling more than \$10 million a year in long-term contracts are required to determine taxable income using a complex new system. Their present method of tax accounting, which would normally recognize income when the job is completed, is applied to 60 percent of their income; percentage-of-completion accounting, which recognizes income while work is being done, is applied to the other 40 percent. Contractors will have to accelerate tax payments.

● **Cash-basis businesses.** Use of a cash-basis method for determining taxable income is no longer permissible for most corporations with annual gross receipts of over \$5 million. The result here, too, will be greatly accelerated tax payments.

● **Change of fiscal year.** The new law requires most partnerships, S corporations and professional corporations to report for tax purposes on a calendar-year basis. All covered entities now using fiscal years are required to file two tax returns for 1987 to effect the change. There will be an acceleration of tax payments because of the change, and accelerated taxes have the same effect as higher taxes.



● **Installment sellers.** Many retail businesses, such as appliance dealers, use the installment method of reporting income. When they sell goods for monthly payments, they effectively pay the tax on each installment when they collect it. Now, the income will be reportable sooner, which will significantly accelerate tax payments owed by these businesses.

Furthermore, installment sales of business and rental real estate for over \$150,000 are also subject to similar new rules.

Compliance with the new rules will be so complicated that it easily could

take more effort to determine the reportable gain on an installment sale than to complete all the rest of an individual's tax return.

● **Passive-loss rules.** A new set of rules greatly reduces deductions allowed for passive losses for individuals and some corporations. (Passive losses include rental losses and most losses from partnerships and S corporations.) These rules will reduce loss deductions for business owners who are not employed full-time and for those who lease buildings and equipment to their businesses. To the extent they do, business-tax payments will be accelerated.

● **Double tax on liquidations.** The Tax Reform Act repeals what is known as the General Utilities Doctrine. This rule had allowed corporations to sell out or liquidate with only one tax—which was payable by the stockholders—on most of the gain resulting from the sale or liquidation.

Now (or in 1989, for the smallest corporations), there will be two income taxes on corporate sales and liquidations—one at the corporate level and another at the stockholder level.

Since lack of capital often forces small-business owners to leave most of their profits in their corporations, those businesses become the primary repositories of their savings. The double tax on sales and liquidations effectively confiscates a significant portion—often over half—of these savings. Prior law took only about one-fifth.

**T**hese revenue-enhancing provisions constitute the lethal part of the act. Nearly every one injects a new level of complexity that significantly increases compliance problems. The costs of complying with sophisticated new rules, which are relatively higher for small businesses, are just as real as the costs of higher taxes.

About the only bright spot in an otherwise gloomy situation is the lower marginal tax rates that will apply to both corporations and individuals.

The first part of the benefit from the lower marginal rates on higher income will usually be eaten up by the overall tax increases. After that has happened, however, the net result will usually be positive for those small businesses that increase earnings substantially. In the long run, the new law could help small businesses that are strong and growing to become stronger. ■

## Corporate Taxes Under Reform

Taxable Income	Old Law	New Law	Reduction
(\$)	(\$)	(\$)	(\$)(%)
25,000	3,750	3,750	0 (0)
50,000	8,250	7,500	750 (9)
100,000	25,750	22,250	3,500 (14)
200,000	71,750	61,250	10,500 (15)
300,000	117,750	100,250	17,500 (15)
1,500,000 +			(26)

To order reprints of this article, see page 38.



# Building On A Better Burger

By Michael Barrier

*Carl Karcher made a fortune selling a quality hamburger. He kept that fortune by doing the same thing.*



PHOTO: JIM WENDENHALL

It is, clearly, a fine hamburger. It has been cooked fresh to order on a "charbroiler"—a gas-fired double broiler—then topped with shredded lettuce, tomato, onion, dill pickle and a "special sauce." The sauce gives the burger a pleasant taste as instantly recognizable as a trademark or a theme song; its exact ingredients are secret, but obviously they include catsup and pickle relish. The completed sandwich, on a sesame-seed bun, fits snugly in a handsome cardboard container. Everything about the burger—its appearance, its aroma—promises satisfaction.

And however much that hamburger may mean to the person who is about to eat it, it means even more to Carl N. Karcher. The hamburger is a Carl's Famous Star, and it is the mainstay of a chain of 440 fast-food restaurants called Carl's Jr. Karcher is that Carl.

He is a bear of a man, over 6 feet tall and wearing a size 14C shoe. Fifty years ago, Karcher's uncle needed a brawny young man for heavy lifting at his feed-and-seed store in Anaheim, Calif., and Carl moved west from his native Ohio to fill the job. Karcher's

*When the Carl's Jr. fast-food chain started losing touch with its customers, Karcher led it "back to basics" in food, service and regional strength.*

huge hands could probably still make short work of a sack of grain. He might have spent his life doing such work, because his schooling ended after eighth grade.

But his lack of formal education made him work harder, Karcher says, and "I guess I learned by asking a lot of questions."

He learned enough to become chairman and chief executive officer of Anaheim-based Carl Karcher Enterprises, a publicly traded corporation whose company-owned restaurants registered sales in fiscal 1987 of \$292 million. (Franchised restaurants—they now total 78—had sales of more than \$51 million.)

Although CKE's smiling-star emblem is little known outside California, Nevada and Arizona, Carl's Jr. restaurants are ubiquitous in the Los Angeles area, where their sales volume is exceeded by

only one other fast-food chain, McDonald's.

The company traces its origins to 1941, when Carl Karcher was a 24-year-old deliveryman for a bakery in Los Angeles. "I came home and told my wife I had a chance to buy this hot-dog stand, and she said, 'With what?' The price was \$350, and we had no money." Karcher mortgaged his car to buy the hot-dog stand; sales the first day came to \$14.75.

More hot-dog stands followed, and in 1946 Karcher added hamburgers to the menu. Karcher himself mixed the special sauce in 20-gallon batches on his back porch. By 1956, the flagship of his little chain was a full-fledged restaurant, Carl's Drive-In Barbecue in Anaheim. That year, Karcher opened two miniature versions of the restaurant. They were junior Carl's—thus the unusual name.

The fast-food industry was in its infancy, and Karcher's new chain grew slowly at first. By 1968, there were still only two dozen Carl's Jr. units. The explosive growth of the 1970s and early



## LESSONS OF LEADERSHIP

## Building On A Better Burger

1980s followed, for Carl's Jr. and for the fast-food industry as a whole, as Americans fell in love with speed and convenience in eating out.

**T**oday, the Carl's Jr. menu is not radically different from that of many other fast-food chains. The hamburger, in various forms, dominates the list. But there are fillips—the kind that help to give a fast-food chain a distinct personality in the public's mind—like fried zucchini.

The most important fillip is not on the menu; it is instead what the company calls "partial hostess service," which is rare in such hamburger restaurants. A Carl's Jr. customer places an order at a front counter like those in competing chains, and then receives not a tray of food but rather a plastic marker with a number on it. Guided by the number, a Carl's Jr. employee brings the food to the customer's table. It is a little touch of luxury in a rush-rush business. (It also clears waiting customers from the space in front of the counter—and the service is so limited that no one could think that the server expected a tip.)

When he installed the hostess service in the 1960s, Karcher overruled staff objections that it would raise labor costs: "I think that's what makes us different, extra service."

Good food, a solid regional base, a clear public identity—just what a fast-food company might want when it was ready to expand across the country. About five years ago, Carl Karcher thought he was ready.

He opened three dozen outlets in Texas, many of them franchised. At the same time, CKE expanded its menu, offering four "charbroiled dinners" served on platters—steak, chicken, trout and ground round—at all its restaurants.

And the problems started.

It was, for one thing, a bad time to go into Texas, where the depressed economy was not hospitable to an expanding restaurant chain. CKE compounded its mistake by building restaurants that were too big.

The dinner platters were an expensive gamble—adding them entailed spending millions for dishwashers and other equipment. And then someone in the organization decreed that the dinners should be served with real silverware instead of fast-food plastic. When he learned that, Karcher says, "I just had a kitten. You get that at some big restaurant, not at a Carl's Jr. We were losing more silverware than we could

*Around 1942, Karcher posed with one of his children (he and his wife have 12) and an employee at his first hot-dog stand. Now the Carl's Jr. chain embraces 440 restaurants.*



buy, because people were dumping it in the trash containers."

The dinner platters also created staff problems, he says: "We did not have our people trained to put out dinners. It turned our people off." Quality—of food and service—began to slip.

Such woes might have been shrugged off if sales were growing, but they were not. Average annual sales per restaurant dropped from \$786,500, in the fiscal year that ended Jan. 31, 1985, to \$717,000 the following fiscal year.

For the first time, Carl Karcher was losing touch with his customers.

The public draws a line between fast-food stores and coffee shops—between a chain like McDonald's and a chain like Denny's—and it expects a certain kind of food, and a certain kind of service, from one and not the other. A successful fast-food chain must know where the line is, even though the line is always shifting.

Twenty years ago, for example, most people bought fast food from carry-out windows; if a fast-food unit had dining facilities, they were Spartan. Today, comfortable, well-decorated dining rooms are the norm.

Likewise, the idea of a fast-food breakfast once seemed bizarre; now it is commonplace. Salad bars, drive-through service, topped potatoes—all

these familiar fixtures were once risky innovations.

When Carl's Jr. introduced its dinner platters, it smudged that invisible line, especially in markets where it was not already a well-known name. Potential customers, Karcher says, "classified us as a coffee shop," and so they stayed away when they wanted fast food. Even the signs on the buildings added to the confusion: To reflect the new menu, they were changed systemwide from "Carl's Jr. Charbroiled Hamburgers" to "Carl's Jr. Restaurant."

Now the signs are being changed back.

With decades of work at stake, Carl Karcher set aside his dreams of national expansion, and in 1985 he started leading his company back toward its roots. The menu was retooled and prices were cut; out went the expensive dinner platters. The emphasis now is on the faithful Famous Star, and on new items like a very popular charbroiled chicken sandwich and a beverage bar with free refills. CKE pulled out of Texas and cut back its presence in Arizona, closing or selling 42 unprofitable units in all. Instead of building units in other states, the company has been remodeling old ones in California, giving hundreds of its restaurants bright, new faces.

Karcher calls this program for corporate revival "back to basics"—in food, service and regional strength—and it has brought his company back. In the first six months of the current fiscal year, average sales per restaurant were up 24 percent over the year before. "And when young managers start getting a bonus," Karcher says, "they seem to smile more, for some reason. There's a different feeling in our company; everybody's turned on." With CKE once again in tune with its customers, Karcher is talking—cautiously—about a second try at franchising nationwide.

**C**arl Karcher turns 71 soon, and the strain of his company's brush with disaster would have flattened many less robust men of his age. "The stress these last several years has probably been greater than at any time in my life," he says. "When you've put in 45 years, you think that everything's going to get easier. Nothing is easy. And I think that's where too many people fail in business—they think they've got it made. It's fun being in business, but there's no rest for the wicked." ■



# Editorial

*Despite turmoil on Wall Street, there are still many positives in the U.S. economy.*

## New Year's Resolution: Take "Great Care ... With Major Economic Decisions"

Listening to some economic reports over the past two months, it would have been easy to assume that the new year would be 1930, not 1988.

The 508-point drop in the Dow Jones Industrial Average on October 19 produced a flood of comparisons to October, 1929, when Wall Street developments signaled the end of the boom of the 1920s and the start of the paralyzing depression of the 1930s.

Suggestions that events of October, 1987, also heralded the end of a long period of prosperity and the start of a new depression—or at least a recession—formed a common denominator of many economic analyses and news reports following the sharp drop on Wall Street.

But there is a lot more to the American economy than Wall Street, and the impact of last October's decline can only be assessed by placing it in a larger context.

President Reagan did just that in a recent address to members of the U.S. Chamber of Commerce, who honored him on the fifth anniversary of the recovery brought about by his policies. The President countered doomsayers' assertions that the market's fall reflected factors such as a softening economy, continuing erosion of the nation's manufacturing industries, a trade deficit that appeared intractable and the continuing federal budget deficit.

At the same time the market was plunging, the President pointed out:

- The gross national product was picking up steam;
- After a brief spurt, inflation was falling to an annual rate of 2.7 percent;
- The unemployment rate was at its lowest level in eight years, and 14 million jobs have been created since the expansion began;
- Manufacturing jobs had grown by more than 300,000 in the 12 months preceding the market plunge;
- Manufacturing productivity was up 4 percent, and the real value of exports was up 13 percent in the same period;



● The federal deficit for the fiscal year that ended September 30, less than three weeks before the market drop, was \$73 billion less than the red-ink figure for the previous year.

Two months after the Wall Street sell-off, the President noted, the Dow Jones Industrial Average was still twice as high as it was at the outset of the economic recovery, and it was at the same level it had reached a year ago, when the recovery was four years old.

He added:

"Let me say without reservation that I see no reason to believe that the market drop should drag our country into recession."

At the same time, he warned that "the continuing volatility of the market necessitates that great care be taken with major economic decisions."

Mr. Reagan recalled that it was not the 1929 stock-market crash per se that triggered the depression but the economic policies adopted in its wake: tax increases, tighter money and a highly protectionist trade law.

And those are the very steps that policymakers should avoid now. In addition, Congress should resist any election-year temptation to pander to special-interest groups through legislation that would harm the overall economy.

This temptation will be particularly

strong when the lawmakers consider organized labor's legislative agenda.

That agenda calls for an increase of nearly 40 percent in the minimum wage by 1990 and for automatic increases thereafter. Another proposal would require all employers to provide health insurance to workers and their families.

Those and other measures being pressed by big labor's congressional allies would impose massive costs on most businesses. The end result would be higher prices, fewer jobs and even the closing of some firms.

Those bills pose an even greater danger beyond their specific contents. They are manifestations of a strategy by which members of the strong liberal bloc in Congress want to create costly social programs while lacking the courage to ask taxpayers to finance them. Their answer is to forge ahead and make business pay the costs, regardless of the adverse impact on prices and job creation. Congress should reject that strategy as part of an overall commitment to sound economic policies in 1988.

The shock waves of the October 19 plunge in stock prices will continue well into 1988. But government policy planners, business people and consumers must also realize that, far from collapsing on that day, the overall economy was still moving upward. We have not plunged into a depression or even a recession.

We could bring about those results in the new year, however, if the financial events of last October are used as an excuse for unsound policies that will pose a far greater threat to economic health than a temporary setback in the stock market.

With the advent of the new year, President Reagan not only urged the necessity "that great care be taken with major economic decisions," but he also offered a succinct recommendation on where those decisions should take us: "We must make certain that growth forces prevail and that recession is avoided." ■







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